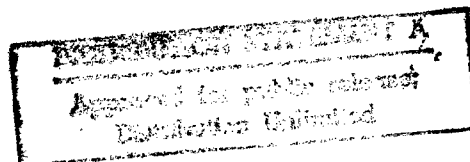


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# China Report

ECONOMIC AFFAIRS

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13 August 1985

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NATIONAL POLICY AND ISSUES

ANALYSIS OF PRC CURRENT ECONOMIC SITUATION--CERTAIN CORRECTIONS

HK080821 Beijing JINGJI YANJIU in Chinese No 5, 20 May 85 p 61

[Letter From Author Yue Bing [1471 0343]: "Analysis of PRC' Current Economic Situation--Certain Corrections"]

[Text] JINGJI YANJIU Issue No 3, 1985, carried my article: "An Analysis of the Current Economic Situation." Due to carelessness at the time of writing, on page 33, paragraph 4 [Take 3, graph 3, line 7], in the sentence: "According to a survey of over 400 large state-run enterprises made by the relevant departments, from January to November, 1984, the increase in industrial products kept in stock amounted to a value of nearly 290 billion yuan,..." the figure of 290 billion was erroneously cited. The sentence should be corrected to read: "According to a survey made by the relevant departments on state-run industrial enterprises embodied in the budget, up to the end of November 1984, the increase in industrial products kept in stock amounted to a value of nearly 29 billion yuan." In the same paragraph [take 3, line 13, graph 3], following further checking, the sentences: "The country's production of steel products increased by 3 million tons in 1984. However, preliminary estimates show that the quantity of steel products held in stock would increase by nearly 2 million tons for the whole year" should be deleted, because an increase in the quantity of steel products kept in stock can be due to many factors and cannot be employed to illustrate the theme of this paragraph. Further on, the paragraph continues: "Of the commercial consumer goods held in stock, a preliminary estimate shows that about 20 percent belong to the category of products with stagnant sales while only around 15 percent could be marketed briskly." This should be corrected to read: "In the commercial system, of the industrial goods held in stock, about 10 percent were commodities that had been stockpiled for an excessively long period of time." On page 34, line 7 [take 4, graph 1, line 14], the words "the gross volume of consumption funds" should be corrected to read "expenses in the nature of salaries and wages out of the cash outlay of banks." In addition, on page 33, line 31 [take 3, graph 5, line 6] the words "cannot long maintain a high growth rate" should be corrected to read "cannot long maintain an excessively high growth rate."

CSO: 4006/795

## NATIONAL POLICY AND ISSUES

### ECONOMIC JOURNAL ON DEVELOPMENT OF SMALL TOWNS

HK190143 Beijing JINGJI YANJIU in Chinese No 5, 20 May 85 pp 62-67

[Article by Ye Kelin [0673 0344 2651] of Jiangsu Provincial Academy of Social Sciences and Chen Guang [7115 1639] of the Political Science Department, Suzhou University: "Inevitability of the Development of Small Towns"]

[Text] That small towns have become an important theoretical and practical issue in the socialist modernization program is a social and historical inevitability. The probing of this issue will be of immense significance in formulating development strategies for small towns and guiding the building up of small towns.

#### 1. The "Two Changes" in China's Countryside and the Vigorous Growth of Small Towns

At present, China's countryside is in the process of "changing from a self-sufficient or semi-self-sufficient economy to commodity production on a fairly large scale, from traditional agriculture to modernized agriculture." (Footnote 1) ("Several Questions Concerning the Present Rural Economic Policies," RENMIN RIBAO, 10 April 1983) The "two changes" in the rural areas will inevitably promote the vigorous growth of small towns, and the growing prosperity of small towns is an important condition for the realization of the "two changes" in the rural areas.

The seeds of the commodity economy in China's countryside were already implanted in the womb of the feudal society. However, their growth was obstinately held in check by the self-sufficient or semi-self-sufficient rural economy over the past several thousand years. Small towns rose and fell, but the general picture was rather depressing. Since liberation, the rural economy and the appearance of society have both undergone world-shaking changes. However, no radical change has yet been made in the backward state in which the 800 million peasants are existing, and the self-sufficient or semi-self-sufficient economy still plays the leading role in the vast part of the rural areas. Following efforts to open the country to the outside world and to invigorate the domestic economy in the last 6 years, the output-related system of contracted responsibilities has been extended to, and gradually perfected in all rural areas, and

commodity production has seen unprecedented development there. Take Jiangsu Province for instance. In 1983 the total value of agricultural production amounted to 25.55 billion yuan, an increase of 510 percent over 1949 and 54.2 percent over 1978. The consolidated commodity rate of agricultural, sideline, and industrial production also increased from about 20 to 30 percent in the 1950s and 1960s to over 70 percent. Last year, the province turned out over 15 million jin of marketable grain, an amount that exceeded the total grain output of the whole province in 1949. In 1983, the proportion of commercial consumption in the average livelihood expenses of each peasant increased to 64.5 percent from 45.9 percent in 1978.

Following the change from self-sufficient or semi-self-sufficient economy to large-scale commodity production, China's rural economy is beginning to change from a collective economy developed on the basis of the single-product agricultural economy of peasants working on their own to a multi-ingredient and multi-level comprehensive economy which has the cooperative economy as its leading factor. This comprehensive economy integrates the townships, villages, teams, households and combines, ensures the all-round development of agriculture, forestry, animal husbandry, sideline production and fishery, and entails the comprehensive undertaking of industry, commerce, building, transportation and the service trades. With this change comes the ever-growing intensification of division of work in rural commodity production. A multi-professional economic and social structure is taking shape. At present, there are 1,408,500 specialized households in the whole province, and over 50,000 economic combines of various types. At the same time, there have developed specialized townships and villages that practice a diversified economy with one or several sideline occupations as the backbone. Enterprises independently or jointly run by peasants have also emerged. Agricultural and sideline production are developing in the direction of specialization and socialization. Industrial and sideline production are developing in an all-round way, and the rural economic structure is undergoing a profound change. In 1983, the proportion of the output value of farming in the total value of agricultural production dropped to 57.7 percent from 80.8 percent in 1949. During the same period, the value of sideline production with brigade-run industries as the mainstay rose from 2.9 percent to 26 percent. In the counties under the jurisdiction of Suzhou, Wuxi and Changzhou in southern Jiangsu, where the commodity economy is well developed, the industrial output value accounted for more than 70 percent of the total value of industrial and agricultural production, over 50 percent of the labor force had quit farming for other types of undertakings, and over 50 percent of the income of peasants was derived from other types of occupation. The emergence of a diversified economic structure in China's countryside will inevitably provide a powerful internal driving force for the vigorous growth of small towns.

Seen from changes in the rural population structure, the formation of a diversified economic structure also means that a large population will divorce themselves from agriculture and move into small towns to engage in other undertakings. Lenin pointed out: The development of commodity

economy means the separation of an ever-growing part of the population from agriculture, that is, the growth of the industrial population at the expense of the agricultural population. (Footnote 2) (Lenin: "The Development of Capitalism in Russia," "Collected Works of Lenin," People's Publishing House, 1984 edition, Vol 3, pp 19-20) At present, the population divorced from agriculture (farming) in China, that is, the surplus agricultural labor force, is estimated to account for between 30 and 40 percent of the total agricultural labor force. It is in conformity with the laws of socio-economic development to bring about the transformation of the surplus agricultural labor force. However, as things now stand, there are more disadvantages than advantages in steering the surplus rural labor force toward large and medium-sized cities. We should actively develop small towns and transform the surplus rural labor force on the spot. This is not only an inevitable step. It is a practical one. For example, in 1983, the total number of staff and workers engaged in rural industries in Jiangsu amounted to more than 4 million, close to the total number of urban industrial staff and workers in the whole province. The surplus rural labor force has gone into small towns, where it combines with new means of labor to form new productive forces. Following the concentration of the rural population and the rise of small-town enterprises, large funds and vast amounts of goods and materials will inevitably be put into the small towns. These are objective factors that promote the vigorous growth of small towns.

The emergence of a diversified economic structure inevitably requires that economic and social service centers with the backing of small towns be set up in given rural regions. A certain degree of assembly is the inherent requirement for expanding reproduction. In the development of small-town enterprises, extensive coordination is very urgently needed. This includes coordination in terms of technological procedures, parts and accessories, infrastructural facilities such as water and electricity supply and transport, production-oriented services such as intelligence, information, finance, maintenance, supply and marketing, and livelihood-oriented services such as education, public health, cultural recreation and retailing business. In fact, over 70 percent of the rural enterprises in Jiangsu are concentrated in small towns. With regional economic and social service centers, it will be possible to plan, guide and coordinate the development of various trades and professions in that region in a unified way while meeting the demands for market information, finance, insurance, credit, communications, taxation, technology, trained personnel, and so on in economic development.

The unprecedented development of commodity production in the rural areas has brought about an unprecedented boom in the flow of commodities. Just as with the emergence of the diversified economic structure, the boom in the circulation of commodities in the rural areas will inevitably become yet another power internal driving force for the vigorous growth of small towns. Since ancient times small towns have mostly stemmed from commerce and achieved prosperity through commerce. To meet the needs of the sharp increase in commodity circulation in the rural areas, exchange activities became separated from industrial departments, and a special

exchange department--commerce--began to take shape. Commercial activities must be relatively centralized. "Seen from the historical perspective, the phenomenon of centralization appeared in the activities of merchants long before it did in industrial workshops." (Footnote 3) (Marx: "Das Kapital," People's Publishing House, 1975 edition, Vol 3, p 329) The ever-growing development of commodity exchange and the general trend toward relative centralization in commercial activities will inevitably produce relatively fixed regional markets. In places along the river and along the coast in Jiangsu and Zhejiang where the commodity economy is fairly well developed, this kind of market mostly takes the form of small town trade fairs that open all the year round. For example, there are over 1,400 commercial networks and outlets in Qida town of Wujiang County in the Suzhou prefecture, accounting for 65 percent of commercial networks and outlets in the whole county. In some mountainous areas or outlying districts where the commodity economy is underdeveloped, rural markets usually take the form of regular or irregular trade fairs. These trade fairs are already carrying within themselves the embryos of small towns. In short, it is an objective inevitability that small towns have become the nodes in the networks of rural commodity circulation and the hubs in the exchange of commodities between urban and rural areas.

The intensification of the process of transformation of China's rural areas from a self-sufficient or semi-self-sufficient economy to large-scale commodity production is a process of changing traditional agriculture, which was based on direct experience and manual tools, into modernized agriculture based on modern science and technology, means of production, and methods of management. The realization of the latter transformation will thoroughly change the poor and backward state of China's rural areas. The advance of agricultural modernization will inevitably require us to actively develop small towns.

First, the funds needed for China's agricultural modernization depend to a large extent on the development of small-town enterprises. China is a developing country, a country with a serious shortage of funds. Thus, the state is not in a position to appropriate a lot of funds for the realization of agricultural modernization. At the same time, because of the low level and high cost of agricultural production and the excessively low price of agricultural products, the agricultural sector has not been able to accumulate sufficient funds to achieve its own modernization. According to corrected estimates, it takes about 300 yuan per mu of farmland, or 500 billion yuan on a national basis, to achieve a medium level of modernization. Where will such a huge sum of money come from? Chinese peasants have already provided their answer to this question with actual deeds. Their answer is to vigorously develop small-town enterprises. A basic experience gained by Jiangsu Province in accumulating funds for agricultural modernization is to develop the economy of small towns and run industries in every county or commune according to local conditions. Between 1979 and 1982, rural enterprises spent a total of 14.5 billion yuan, or over 20 percent of their profits, on purchasing farm machines and carrying out farmland capital construction. This amount was equivalent to total state investment in agriculture, forestry, and water conservancy in the whole province during the same period.



Second, in the process of realizing agricultural modernization, a large amount of surplus labor will inevitably and continuously be separated from agriculture. Under specific conditions in our country, actively developing small towns and transferring the surplus agricultural labor to different levels in a planned and systematic way is an important prerequisite for ensuring the realization of socialist agricultural modernization. Engels said: "The development of modern agriculture and the use of agricultural machines will render superfluous the agricultural labor of the majority of small peasants who are now farming their own land. To keep these people who have been pushed out of agriculture from being jobless or from being forced to flock to cities, we must make them engage in industrial labor in the rural areas...." (Footnote 4) (Engels: "Marker," "Collected Works of Marx and Engels," Vol 19, p 369) This idea of our revolutionary teacher has been further proved by practice since the 3d Plenary Session of the 11th CPC Central Committee. The development of small-town enterprises requires the support of small towns. The development of specialized households and combines of various types requires small towns to provide the necessary services before, during, and after production. These provide a vast outlet for surplus rural labor.

Third, in order to realize agricultural modernization, we must, as far as possible, adopt different types of modern new technology and modernize the techniques of agricultural production on the basis of inheriting China's traditional agricultural technique of intensive farming. This requires that we train laborers who are versed in modern science and technology and realize the modernization of agricultural production and management. Small towns are well situated and have good transport facilities. They are also closely linked with big and medium-sized cities. Thus they are important channels for the dissemination of agricultural science and technology and are ideal places for training modernized agricultural laborers. According to 1980 statistics, the proportion taken up by small-town cultural, educational, and public health institutions in the total number of similar institutions in the whole of Jiangsu Province is as follows: Full-time middle schools 40 percent; cultural centers (stations) 45 percent; libraries 80 percent; cinemas 62 percent; hospitals and clinics 82 percent. (Footnote 5) (Quoted from GUANGMING RIBAO, 18 April 1981) It can thus be seen that the role played by small towns in disseminating agricultural science and technology and training modernized agricultural laborers cannot be replaced by big and medium-sized cities.

## 2. China's Industrialization and the Prosperity of Small Towns

In order to realize industrialization, we must fully utilize the existing industrial base and favorable conditions of cities. While developing advanced urban industries, we must also push industrialization toward the rural areas and speed up the process of rural industrialization with the support of small towns. This is the requirement of industrial development itself and is determined by China's specific conditions.

First, the objective requirements of industrial development itself. At present, the distribution of China's industries is not exactly rational. An important manifestation of this is that the majority of industrial productive forces are concentrated in cities in a few regions. In order to change this irrational state, we must conform to the objective requirements of the development of productive forces by spreading them out to the vast rural areas and gradually developing a more rational distribution within the limits of the whole society. The spread of urban industries to the vast rural areas will not only enable us to more effectively utilize resources and achieve better economic results. It will contribute to the rationalization of man--the natural system, thus providing a favorable ecological environment for the further development of urban industries. Today we are being confronted with the challenge of a new scientific and technological revolution. The updating cycle for industrial technology and equipment is getting shorter everyday. Thus, in order to keep pace with the times, we must be quick to adopt new technology and equipment and eliminate old ones. However, in a developing country like ours, the level of productive forces varies greatly. This is particularly obvious between urban and rural areas. Certain technology and equipment that are no longer suitable for use in cities may yield fairly good economic results in rural enterprises. Thus, the "shelling" of technology, technological procedures, equipment and products has become a principal method for spreading urban industries to the rural areas. Industrial production is large-scale socialized production. It requires extensive division of work and coordination within the limits of the whole society. "Big fish" may help "small fish," but then "small fish" may also help "big fish." Socialist division of work and coordination will inevitably promote the upsurge and development of rural industries.

Second, the need to do away with the restrictions imposed by cities on industrial development. The concentration of industries in cities has its advantages in a way because it can help economize on materialized and live labor. However, once concentration becomes excessive, it will generate a series of "urban diseases," such as environmental pollution, housing shortage, traffic congestion, energy shortage and high real estate price. According to preliminary statistics, the cost of construction in big cities is on the average 25 percent higher than in medium-sized cities and more than 100 percent higher than in small towns. Excessive investment in cities under such circumstances will produce diminishing returns on investment. In order to do away with the restrictions imposed on industrial development by cities, we must firmly grasp the transformation of urban industries and carry out the intension type of expanded reproduction. But, more importantly, we must appropriately and in a planned and systematic way transfer and spread to the rural areas certain industries which are no longer suitable for cities, and form a network. This kind of transfer and spreading is conducive to the development of urban industries themselves and will contribute to urban development and the improvement of the livelihood of urban inhabitants.

Third, the prosperity of the vast rural areas is the aim of, as well as the condition for industrialization. Agriculture is the foundation of industry, even the entire national economy. Agriculture provides industry with vast quantities of raw and semi-processed materials and a vast labor force and provides large funds for industrialization. At the same time, agriculture is also a huge market for industry. Thus, the aim of developing the rural economy and promoting rural prosperity is to create conditions for the development of industries. An important means of developing the rural economy and promoting rural prosperity is to spread urban industries to the rural areas and speed up the process of rural industrialization. Industries have brought advanced productive forces and modes of production, as well as an advanced science, culture, and way of life to the rural areas and towns.

To sum up, the advance of industrialization to the rural areas will inevitably accelerate the tempo of the construction of small towns. In general, industries that are being spread to the rural areas will make their homes in places with good transport facilities because good transport is the most basic condition for industrial development. Small towns are, generally speaking, local economic and social centers. They all have fairly good transport facilities. Practically all hubs of communications in the rural area are small towns, and practically all rural post and telecommunications setups in the rural areas are small towns. Small towns have fairly good information transmission facilities. Meanwhile, in places where industries concentrate, certain livelihood and service facilities are required to satisfy the livelihood needs of staff and workers. In most small towns, we may find a considerable number of cultural, educational, public health and other social service institutions and facilities, and the living conditions there can meet the needs of industrial production. Thus, the spread of industries will inevitably bring great vitality to small towns.

### 3. The Evolution of China's Urbanization and the Construction of Small Towns

The process of industrialization is actually a process of urbanization. On the whole, the vigorous development of small towns is determined by the intrinsic requirement of urbanization and the specific means of realizing this intrinsic requirement in our country.

The vigorous development of small towns is required by the rationalization of China's urban system. As illustrated by numerous experience and lessons gained by China and foreign countries, the development of cities must take the rationalization of the urban system as its precondition. If not, it will lead to a series of serious drawbacks in economic and social development. China has achieved certain successes in urban construction in the 35 years since the founding of the People's Republic. In 1952, there were 159 big, medium-sized, and small cities in the whole country with organizational systems approved by the State Council. In 1982, the number rose to 245. During the same period, urban population increased to 145 million from 45.49 million, and the proportion of urban population to

total population also went up to 14.3 percent from 8 percent. However, seen from the present urban system, there is the tendency to put more emphasis on big cities than on small ones. In terms of number, exceptionally big cities with a population of over 1 million people only accounted for 14.2 percent of the total number of cities in the whole country, but their population accounted for 48.8 percent of China's total urban population. In terms of number, small cities with a population of less than 200,000 people accounted for 27 percent of the total number of cities, but their population only accounted for 6.4 percent of the national total. This trend is not in conformity with China's national conditions. Neither is it conducive to the realization of the ideal of communist urbanization. In 1982, China had 2,664 small towns, 49.3 percent of the number in 1952. The present population of these small towns is 61.80 million, which only accounts for 6.2 percent of the national total. This irrational urban system has seriously obstructed the progress of China's urbanization and has hindered the further development of economic and social development. This must be readjusted.

The transformation of the irrational urban system will inevitably promote the development of small towns. On the whole, in our country it is necessary to exercise strict control over big cities and rationally develop the medium-sized ones. Under this setup, China cannot but devote major efforts to developing small towns if it is to achieve urbanization. Practice shows that in our country, the urban system is more reasonable and the degree of urbanization is high in those places where small towns are well developed. Take the economically well-developed region of southern Jiangsu for example. It has 1 exceptionally big city, 3 big cities, 1 medium-sized city, 14 county seats, and 24 organic towns and 340 commune market towns outside of county seats. Together they form a pagoda-shaped urban structure with many centers. The network that links the city and the countryside is quite rationally planned and the level of commodity economy is also quite high. Thus, the energetic development of small towns will be an important precondition for and component of the rationalization of China's urban system.

"The cities are economic, political, scientific, technological, cultural and educational centers where modern industry and members of the working class are concentrated, and they play the leading role in socialist modernization." (Footnote 6) ("Decision of the CPC Central Committee on the Reform of the Economic Structure," People's Publishing House, 1984 edition, p 5) Fully bringing into play this central and leading role of cities in order to bring about progress in the vast countryside is also an important component of China's urbanization. This, too, cannot be separated from the development of small towns. First, seen from the way in which the role of cities is played, it always assumes the form of ripples, spreading out gradually and systematically from near to far. In this ripple-like functional transmission structure, small towns play a role similar to that of booster stations along pipelines. The "radiation" of cities to the rural areas is usually first transmitted to them, and they pass on this "energy" to the rural areas through their own function. Without these small towns, the role of cities will be greatly restricted

and weakened. Thus, by rationally laying out and actively developing small towns around key cities, we will be able to fully bring into play the important role of cities in pushing forward economic, cultural, scientific, technological and other development. Next, seen from the channels in which the role of cities is played, it is also necessary to devote major efforts to developing small towns. In the vast countryside, habitation, production and so on is scattered. Under such circumstances, cities must rely on regional economic centers in their efforts to bring along the rural areas. They must first bring along these centers and let these centers bring along the households one by one. We know that these regional economic centers in the rural areas are what people refer to as small towns. Thus, the notion of bringing the central role of cities into play should also include that of bringing the central role of small towns into play. It can thus be seen that efforts to bring the central role of cities into play will inevitably promote the rise, prosperity and development of small towns. Likewise, the development of small towns is also the prerequisite for fully and smoothly bringing the central role of cities into play.

The development of small towns is the mechanism that ensures the realization of changes in the social structure. It is generally held that an important part of urbanization is the change of the rural population into urban population, that is, the urbanization of the way of life of the rural population. "Urbanized way of life" should refer to an urban way of life that is free from "urban diseases." The urban way of life that is infected with environmental pollution, housing shortage, traffic congestion, lack of service facilities and other "urban diseases" should not be taken as the goal of urbanization. On the contrary, the curing of these "urban diseases" should be taken as an important aspect of present-day urbanization. That is to say, urbanization should refer to efforts to enable the rural population to live up-to-standard urban life and also efforts to free the urban population from "urban diseases" so they can live rationalized urban life. The process of transformation in these two respects is the ideal mode in which to bring about a change in our social structure. We believe that the principal mechanism for bringing about this change lies in the vigorous development of small towns.

First, under China's actual conditions, the change of the rural population into urban population requires that we devote major efforts to developing small towns. It is forecast that by the end of this century, more than 300 million rural laborers will divorce themselves from agricultural production, and most of them will move into cities. This estimate is made on the basis of the existing level of productive forces. It is estimated that China will have a population of 1.2 billion by the end of this century. The urban population alone will amount to 480 million, 270 million more than the present 210 million. This additional 200 million plus will mainly come from the increased use of machinery, that is, the flow of the rural population. It is obvious that this huge population cannot go to the already over-crowded big cities. The number that the 40 plus medium-sized cities can accommodate will also be very limited. Our resources do not permit us to build new cities. Obviously the majority of this

population will move into small cities and small towns. It is estimated that if each county builds three towns on the average, there will be 6,399 towns in the whole country (actually this number is only 997 more than the 1953 figure). The average population of each town will increase to 40,000 from the present 23,200. This means that they can absorb 194.16 million surplus rural laborers, an equivalent of 388 cities with a population of 500,000 people each. Thus, developing small towns is an important avenue for urbanizing the rural population, and this change will inevitably spur the development of small towns.

Second, the elimination of serious "urban diseases" and the rationalization of urban life also requires that we develop small towns. At present, many of our cities are to a greater or lesser extent confronted with problems of environmental pollution, traffic congestion, and housing, energy and water shortages. There are many reasons for the outbreak of "urban diseases." An important reason is that the overexpansion of the urban population has gone out of all proportion to the existing scale of cities. Thus, in order to resolve this contradiction, we must on the one hand strengthen the construction of public facilities in cities (not much breakthrough can be made at present with available resources), and on the other hand spread out the urban population. Under present conditions, the effective dispersal of the greater part of the population will depend on the completion of satellite cities and other small towns.

Finally, the present level of productive forces in our country determines that our present urbanization of the rural population should mainly be achieved through the "part-worker part-peasant" form of transition. At present, our cities only have a very limited ability of absorbing the rural population. Under such circumstances, the urbanization of the rural population will be a slow and progressive process. During this process, a series of transitional forms, the principal one being "part-worker part-peasant," will inevitably take place in the urbanization of the rural population. These typical peasants of yesterday, having just laid down their hoes, are already taking part in industrial production, commerce, transport, building construction and other service trades. Although they have not completely severed their ties with the good earth, they are no longer engaged in agricultural production. They have gone to cities and towns to work, and their way of life has also been urbanized. During a given period, they are at once urban and rural inhabitants. The general trend is toward urbanization. This "part-worker part-peasant" form is an intermediate link in the urbanization of the rural population. Its emergence on a universal scale is entirely determined by the level of productive forces in our country at the present stage. Thus, it has its objective inevitability. Without this "part-worker part-peasant" form of transition, the smooth development of China's urbanization would have been impossible. Without the support of small towns, the existence, consolidation and development of the "part-worker part-peasant stratum" also would have been impossible. From the very beginning, small towns provide the natural soil for the growth of this "part-worker part-peasant stratum." This is determined by the nature of this "part-worker part-peasant" stratum and the characteristics of small towns. As the name

suggests, "part-worker part-peasant" means that people are at once workers and peasants. They live in the rural areas and are as close to the rural areas as are flesh and blood. Thus the majority of them cannot live away from the rural areas all the year round. On the whole, their place of work is quite close to home. Many of them still go to work in the morning and return home in the evening. Small towns are relatively more suited to this "dual role" than are cities. Small towns lie half-way between the urban and the rural areas. They integrate the urban and the rural areas, and may be considered "part-country part-city." In terms of geographical location, they also suit the needs of those who engage in farming. The fact that they are towns and have all the favorable conditions for running industry, commerce, and other occupations also means that they suit the needs of workers. Today, the majority of "part-worker part-peasant" members of our community are playing an active part in small towns in various parts of the country. This has undoubtedly invigorated the construction of small towns and promoted the prosperity and development of small towns.

Of course, the development of small towns does not only have immediate significance. From the long-term points of view, it is of far-reaching significance to the elimination of the difference between town and country.

If we clearly understand the laws governing the development of small towns, we will be able to fully recognize the importance of small towns and will consciously and better strengthen the construction of small towns. We will be able to formulate correct social development strategies and avoid the roundabout course experienced by the west in their social changes. We will be able to fully bring the superiority of the socialist system into play, speed up the four modernizations, and achieve new victories on the road of building socialism with Chinese characteristics.

CSO: 4006/795

NATIONAL POLICY AND ISSUES

JINGJI RIBAO ON FORTHCOMING DEVELOPMENT SYMPOSIUM

OWO20835 Beijing XINHUA in English 0737 GMT 3 Jul 85

["China to Develop its Wild West"--Xinhua headline]

[Text] Beijing, July 3 (XINHUA)--Ways of developing China's vast and sparsely-populated western territory will be examined by leading economists and industrial experts at a symposium next month, today's "Economic Daily" reported.

The "wild" west, much of which is poorly developed, includes 11 provinces and autonomous regions, and covers more than half the country's land area.

The symposium, to be held in Lanzhou, Gansu Province, is being sponsored by the State Council Economic Research Center, several other research institutes and local authorities from these provinces and regions.

Professor Fei Xiaotong, vice-chairman of the National Committee of the Chinese People's Political Consultative Conference, said development of these areas was of vital importance to the national economy and to the prosperity of the many ethnic minorities who lived there.

Xue Muqiao, honorary director general of the State Council Economic Research Center, said western China must first import investment and new technology from the east, and then open up its resources and undertake primary processing of raw materials.

Huang Baozhand, vice-chairman of the Xinjiang Uygur autonomous regional government, suggested international bidding might be considered as a way of exploiting the oil resources of China's biggest region.

The paper said national leaders Hu Yaobang and Zhao Ziyang had inspected western China, and had stressed the importance of developing it.

CSO: 4020/294



NATIONAL POLICY AND ISSUES

GUANGMING ARTICLE ON COMPREHENSIVE FINANCIAL SYSTEM

HK170705 Beijing GUANGMING RIBAO in Chinese 6 Jul 85 p 3

[Article by Xu Yi (6079 3015): "Establish a Comprehensive Financial System of Macroeconomic Coordination and Balance"]

[Text] Microeconomy and macroeconomy are the two sides of the national economy. The dialectical unity of these two economies is the key to the realization of the reform of the economic structure. So while invigorating the microeconomy, we should pay more attention to macroeconomic coordination. Macroeconomic coordination means that the state makes general and specific economic policies, structures and plans according to its understanding of the objective law. The state brings into play the economic levers (mainly the distribution lever in the form of value) with the help of the administration and law, to guide, control and coordinate the work of such a big and complicated national economic system so as to rationalize the proportion of the distribution of the total amount of social labor and realize the benign cycle of the national economy. It needs us to correctly deal with the long-standing basic contradiction between the need and the possibility in social development. In a society based on private ownership, the balance between need and possibility cannot be controlled and can only be realized by an economic crisis. In the socialist society, people can use the law of economy to realize the balance in a planned way, which is the principal task of the socialist planned economy. We should make overall plans for the funds included and not included in the budget and social funds (mainly the bank credit funds) according to the actual demand of the law of balance, adopt economic methods to guide the use of funds in a proportioned and planned way, and reasonably make use of funds so as to rationalize the economic structure, achieve the maximum social economic results with the minimum amount of labor, improve the material and cultural life of the people and enable the national economy to develop healthily according to the basic law of the socialist economy.

The fundamental way to solve the contradiction between need and possibility is to organize balance. The principal aspect of the contradiction lies in possibility, namely the impassable limit set by the national strength.

First of all, the principal task of comprehensive balance is to correctly deal with proportional relationship between the accumulation and consumption

of the national income. In order to study the distribution of financial resources, we should first study the distribution of national income. At present, if we only consider the proportion between the accumulation and consumption in the state budget plan, we will not be able to make strategic decisions. Only by considering the financial resources in and out of the budget and the financial resources of the social funds can we get to know the exact proportion of accumulation and consumption of the whole society. This is the necessary precondition in making long-term strategic developmental policies, is the basis for the study of distribution policies and the rational distribution structure and is the basis for planning the reproduction of material goods and the reproduction of relations of production. In the past, we made mistakes in distribution because we did not consider the overall situation in social products and the distribution and redistribution of the national income. So to establish a comprehensive financial system means to use the systematic project to consider overall investment and production and analyze the flow of funds and to use information theory, system theory and cybernetics to make the distribution policies and guide the rationalization of the economic structure. The main aspect of the state budget is the guiding lever to coordinate the distribution relationship in various aspects, which is the key to controlling the distribution structure. The change caused by the concentration of financial resources by the state will naturally cause a change in various aspects such as the change in the revenue-expenditure structure and in the quantity of the various links. In order to correctly and effectively bring the guiding lever into play and arouse the enthusiasm on all sides, we should consider the distribution in various aspects and on various levels and should not only consider the budget but also consider the overall financial resources. So in order to really make good use of the concentrated financial resources in the budget, we need a comprehensive financial and credit plan and need to take the whole situation into account when studying and making distribution policies.

Secondly, the various special funds retained from the profits of enterprises or previously drawn from the cost of enterprises, which are concerned with the proportional relations of accumulation and consumption should be macroscopically controlled and guided by the state. Accounting, cost accounting and depreciation accounting should be used and the cost accounting of various parts of c.v.m. [as published] should be strengthened so as to know clearly about the various expenditures. The various special funds spread in "thousands of households" should be controlled by a special household fund administration. So long as the decision making power is not diverted, the various special funds should be brought into line with the comprehensive financial plan and should be supervised and transferred appropriately by financial departments and the banks.

Finally, bank credit funds should not only be "respectively balanced" by the various specialized banks, but also be brought into line with the comprehensive financial credit plan, and the credit scale should be controlled by the overall balance so as to form a complete accounting system and a complete coordination and control system for the national economy.

Generally speaking, the comprehensive financial plan has the following tasks: (1) To check whether total social funds and social material goods are balanced or not; (2) to analyze the flow and direction of funds and see whether our policies are appropriate or not; (3) after analyzing the law governing fund movement, to readjust the policies in a planned way, flexibly exercise the economic lever and readjust the funds to meet the urgent need of production on condition that fund ownership is not changed; (4) to supervise the use of the fund; (5) foreign funds should be well-administered and should be brought into line with balance; (6) to study the long-term plan and strategy for the development of the national economy.

To make the best use of limited financial resources through guidance and readjustment of the comprehensive financial plan is reasonable planning and is also the objective demand of the planned commodity economy. The financial departments should become management and administrative departments, should consider the overall situation in the national economic accounting and study the investment and production as well as the flow of funds in the national economy, and should unify the various relations on the basis of the balance of funds and material goods so as to truly realize effective macroscopic coordination and the benign cycle of the national economy.

CSO: 4006/791

## NATIONAL POLICY AND ISSUES

### NATIONAL PRODUCTION SAFETY MEETING HELD IN LIAONING

SK190215 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 16 Jul 85

[Text] The national on-the-spot meeting on production safety opened at the Anshan Iron and Steel Company on 16 July. This meeting will play an important role in mobilizing forces from all sources of the country to maintain production safety successfully.

Attending the meeting were Yuan Baohua, vice chairman of the National Production Safety Committee and vice minister of the State Economic Commission; Wang Chonglun, vice president of the All-China Federation of Trade Unions; He Guang, vice minister of labor and personnel; Chen Bingquan, vice president of the All-China Federation of Trade Unions and member of its secretariat; Tan Liren, adviser to the Liaoning Provincial Government; and (Sun Hongji), deputy director of the Northeast China Energy Office. Also attending were some 500 delegates from 28 provinces, autonomous regions, and municipalities throughout the country.

Yuan Baohua pointed out in his speech: Leading comrades of all departments, localities, and enterprises should conscientiously carry out the principle of putting safety first and ideologically attach importance to production safety. We should strengthen control over safety and improve enterprises' conditions for production safety as quickly as possible. It is necessary to strengthen the work to approve the opening of township and individual collieries and their management.

Comrade Yuan Baohua also emphasized: Leading comrades of all enterprises should attach great importance to production safety, and try their best to make it a success in order to guarantee a sustained, steady, and healthy development in the economy of our country.

The Anshan Iron and Steel Company, Beijing's (Yanshan) Petrochemical General Company, the Pingdingshan Coal Mining Administration, the Sichuan General Chemical Industrial Plant, and Hunan's No. 282 plant introduced their experiences at the meeting.

The meeting is scheduled to conclude on 19 July.

CSO: 4006/786

NATIONAL POLICY AND ISSUES

PRC FACTORY DIRECTORS DISCUSS INTERESTS OF STATE, WORKERS

HK180327 Beijing CHINA DAILY in English 18 Jul 85 p 4

[From CHINA ENTERPRENEUR--passages within slantlines published in boldface]

[Text] Factory directors in State-owned factories have been granted more financial and decision-making autonomy under China's new economic reforms.

Directors are now freer to determine workers' wages and benefits as well as to reinvest profits made in excess of State production quotas.

But the interests of the State and of a factory sometimes diverge and the responsibilities of each fall into gray areas.

/Who should a factory manager represent--the State or his factory? The question has caused a heated debate in academic as well as industrial circles./

/At a recent forum sponsored by the China Factory Directors Work Research Association, participants tackled the issue. A condensed version of their remarks is reprinted below./

Zheng Wenchang, director of the Beijing Refrigerator General Factory, said managers should have loyalty to both the State and to the factory and its workers. But when the two interests conflict, he said, "a manager must put the State above everything else." Between the enterprise and the State, he added, the director is mainly responsible to the latter.

Wu Peiliang, associate professor of the Engineering Economics Department at the Chinese People's University, agreed: "State interests should be put first when there is a contradiction between the two."

Wu disputed the view that a director is solely responsible to the factory, noting that State-run industries are different from collective-run or privately-owned establishments.

He said some factory directors stand squarely on the side of the business and its employees because this will increase their votes in the election of directors by workers.

Li Shugui, director of the Beijing Cryo-Equipment General Factory, said he saw no conflict between the interests of the State and the interest of a factory. They ought to be the same, he said, except that the latter may seem more immediate and practical than the former.

In order to ensure that a factory director represents State interests, clear-cut regulations must be laid down about how profits should be shared by the state, a factory and its workers, Li said.

Xu Xiaochun, director of the Beijing Printing and Dyeing Factory, said he believes that the interests of the State cannot be satisfied if the interests of the factory and its workers are ignored.

Consistency of policies is important, Xu said. Without this, the director is hamstrung by too many uncertainties. For instance, his factory's income last year was reduced by 300,000 yuan because of red tape at a higher level. The loss discouraged employees and created an impression that the director's word is meaningless, he said.

Yong Hengdao, head of the Management Department of the Yanshan General Petrol-Chemical Company, says most of his company's affiliate factory directors agree that they should represent both State and factory interests.

He says some factory directors find this difficult because of continually changing policies. Some businesses profit from policy changes; others suffer losses, he added.

Wu Fengxiang, deputy dean of the Industrial Economics Department of Beijing Economics Institute, says a factory director must ultimately represent the interests of the owner. In capitalist countries where a factory head is appointed by the owner, he should represent him. In our socialist country, he should represent the State since the factory is publicly owned. On the other hand, he must not ignore the employees because a socialist State-run factory also belongs to the workers.

Tang Erlie, manager of the Beijing Industrial Company of Electrical Equipment and director of the Beijing Factory Directors Research Association, says the expansion of factory decision-making powers makes a director's job more complex.

In the past, everything was determined by the State, including salaries, welfare payments and bonuses. But now the development of a factory is closely linked to the interests of the employees and it is impossible for a factory director to succeed without their support. Tang said State policies must ensure that increases in profits are accompanied by increases in worker benefits.

Wang Zepu, director of the Seamless Tubing Mill of the Anshan Steel Works, said the new system puts factory directors in the difficult position of trying to satisfy everyone.

In 1979, for example, his mill turned in a bigger profit than in the past. But because most of it was turned over to the State and little was spent on improving employee living conditions, Wang said, he was criticized by workers for "not caring about employees."

Officials at higher levels often judge a factory director in terms of his popularity. A factory director who protects the State interests but is unpopular with his employees always leaves a bad impression on his superiors, Wang said.

CSO: 4020/294

## NATIONAL POLICY AND ISSUES

### LARGE-SCALE ENTERPRISES IN WESTERN PRC FACE CHALLENGES

HK180315 Beijing CHINA DAILY in English 18 Jul 85 p 4

[Text] Big enterprises in China's remote west, where economic development trails behind the eastern part of the country, are facing tough challenges.

These giants, designed in the 1950s or 60s and run along traditional Soviet lines, are mainly oil fields, mines and raw-material processors. Their primary products can barely find a market in the regions where they are located because their market-oriented economy is underdeveloped.

In recent years enterprises in the west have lagged further behind those in the coastal areas in terms of technology and the pace of information exchange. These enterprises, with outdated equipment, are far less efficient than their counterparts in the coastal areas.

The majority don't have the facilities to reprocessing their primary products. To make the matters worse, the exploitation of vast natural resources in the eastern and the development of synthetic materials in recent years are whittling away the once strong position of these heavy industrial enterprises.

Intense competition from new enterprises in the coastal areas and the ever-growing influence of market regulations are edging their products out of the traditional markets in the country's more developed areas. Moreover, a potentially vast market for their products in west China remains underdeveloped and the international market is virtually untapped.

They are also suffering a severe shortage of funds. Mostly capital-intensive concerns, they need multimillion yuan investments to revamp their old equipment. But funds fall far short of demand.

Some economists have put forward a three-point plan to remedy the problems.

--Promote co-operation between these big enterprises and their localities.

The crux of the matter is to take care of the economic interests of both sides. The localities, on the one hand, should refrain from making use of their administrative power to infringe upon the interests of these enterprises.



The big enterprises, on the other hand, should not only fulfill their tax obligation to the localities but should also help develop industries there using their technology, talent and money. At the same time, the localities should buy the products and assimilate the technology of the big enterprises.

--Strengthen the enterprises' ability of self-development.

The authorities should give the enterprises freedom to modernize, enabling them to spare a fairly big portion of their resources and efforts for the upgrading of old equipment so that they gain the capability of reprocessing their primary products.

--Cultivate a pluralistic and outward-looking market system in West China.

The enterprises should develop products that can easily find a market in the west region. The traditional markets for their goods, therefore, will gradually move westward. At the same time, they should take an active part in the competition on the international market.

CSO: 4020/294

## BRIEFS

INVESTMENT PROBLEMS, MEASURES--Beijing, July 17 (XINHUA)--Investment and consumption funds are still inflating, though the people's Bank of China adopted measures a few months ago to bring them back into line, according to today's "People's Daily". Overblown industrial output value is one of the abnormal indicators. In the past few months, industrial output value showed a more than 20 percent increase, with that of rural industries rising more than 50 percent. As a result, the first three months this year saw the agricultural bank issuing loans 3.2 times the figure for the same period last year. With their after-tax profits, some enterprises increased wages at a speed higher than that in 1984 while their investment funds diminished. Investment size, especially capital construction beyond the state plan, is still too big, as some areas have transferred bank loans from floating funds to capital construction. Though the investment within the state budget grew little over the past year, capital construction with funds from other channels jumped more than 80 percent. Banks and credit cooperatives are urged to use the levers of interest rates and credit to regulate the flow of currency and accelerate circulation of funds. High interest rates are recommended for rural industrial projects and urban collective projects which are expected to have good economic returns, according to the paper. [Text] [Beijing XINHUA in English 1641 GMT 17 Jul 85 OW]

CSO: 4020/294

PROVINCIAL AFFAIRS

ZHEJIANG'S XUE JU REPORTS ON GOVERNMENT WORK

OW192253 Hangzhou ZHEJIANG RIBAO in Chinese 15 Jun 85 p 1

[Report by Xue Ju, Governor of Zhejiang Province, on the work of the government at the Third Session of the Sixth Zhejiang Provincial People's Congress on 5 June 1985]

[Text] Fellow deputies:

On behalf of the provincial People's Government, I now submit a report on the work of the government to the third session of the Sixth Provincial People's Congress for deliberation.

My report is divided into four parts:

- I. On the economic situation in the past year;
- II. On the speed of economic development;
- III. On reform and opening to the outside world; and
- IV. On strengthening construction of spiritual civilization and a democratic legal system.

I. As proposed by the second session of the Sixth Provincial People's Congress, the province's main tasks in 1984 were to concentrate efforts on the two important matters of effectively carrying out economic structural reform and opening to the outside world; to strive to increase the total industrial output value by 6 percent, the total agricultural output value by 5 percent, and financial revenues by 2.5 percent in order to improve economic efficiency; and to further improve financial and economic situations as well as social conduct. In the past year, people in the province made tremendous efforts on all fronts, achieved great results, and overfulfilled projected requirements in many areas.

The provincial economy continued to grow rather rapidly in 1984, with total industrial and agricultural output value reaching 52.97 billion yuan, up 26.5 percent from 1983. Of that growth, the total industrial output value accounted for 24.5 percent and the total agricultural output value 29 percent.

The provincial income totaled 27.67 billion yuan, up 23.1 percent from 1983, and financial revenues rose by 12.6 percent. Better economic results were achieved in various sectors. Rural and urban markets were brisk and the people's livelihood continued to improve. According to a sample survey by the provincial Statistical Bureau, the per capita net income of peasants in 1984 was 446.4 yuan, up 24.4 from 1983; and the per capita income of urban workers that could be used on living expenses was 616.56 yuan, up 17.7 percent from 1983 after allowing for price hikes.

From January through May 1985, the provincial economy continued to develop rapidly, with the total industrial output value reaching 17.19 billion yuan, up 41.6 percent from the same period in 1984. Compared with the average monthly output value in the last quarter of 1984, the growth rate was 7.6 percent. Economic efficiency also improved. Compared with the same period of 1984, the industrial output value of state-run enterprises under the state budget rose by 18.9 percent, proceeds from product sales by 22.1 percent, and profits and taxes by 19.57 percent. The province's commodity retail sales volume increased by 34.9 percent from the same period of 1984. By the end of May, financial revenues of the province had reached 2.59 billion yuan, up 29.1 percent from the same period of 1984.

New progress in economic structural reform and expansion of other reforms from rural to urban areas have primarily spurred the provincial economy since 1984.

Rural reform, with emphasis on developing the commodity economy, was carried out more thoroughly. Production responsibility systems were gradually improved in all trades. Land contract periods were generally extended 15 to 30 years. Rural households contracted wooded mountains, lakes, and beaches for development, and state-run farms and tree farms extensively instituted worker contract systems. These have further aroused the peasants' enthusiasm and led to overall bumper harvests of grain and cash crops. Grain output in 1984 was 18,171,400 tons, up 14.7 percent from 1983, and the per capita grain rose from 800 to 910 jin. There were overall bumper harvests of cash crops such as cotton, hemp, silkworm cocoons, and oranges. Rural industrial structure became more rational. Village and town enterprises, including those run by townships, villages, peasants, and commune households, developed rapidly, achieving an output value of 15.1 billion yuan, exceeding the combined output value of agriculture, forestry, animal husbandry, and fishery. With the labor force engaged in non-farming operations accounting for approximately half of the total rural labor force, rural economy gradually became commodity-oriented.

In industrial reform, enterprises were given more decisionmaking power primarily to enliven them. This task was extended from collective and small-sized enterprises to enterprises owned by the whole people, and large and medium-sized enterprises. In accordance with the State Council's plan, the second-stage reform to replace profit delivery with tax payment was extensively carried out. Various forms of economic responsibility systems were generally implemented in enterprises and plant director (manager) responsibility systems were tried out in some enterprises whose work of consolidation

had passed inspection. There were 694 small-sized state-run industrial enterprises in the province instituting the system of "ownership by the whole people, collective management, paying taxes according to relevant regulations, and assuming sole responsibility for their own profits and losses." These reforms, though in the initial stages, have begun to change the situation in which enterprises eat from the "big pot" of the state and workers eat from the "big pot" of enterprises, thereby arousing the enthusiasm of enterprises and workers alike and enlivening the enterprises. Structural reform of industrial enterprises has promoted technical transformation of enterprises and readjustment of industrial structure. The ratio of investment in technical transformation of that in fixed assets of enterprises owned by the whole people rose from 18 percent in 1979 to 33 percent in 1984. The proportion of light industrial output value to total industrial output value rose from 59.5 percent in 1978 to 64.25 percent in 1984. And the industrial output value of collectively-owned enterprises in rural and urban areas accounted for 56.1 percent of the total industrial output value in 1984, as compared with 39.4 percent in 1978. A new situation, in which light and heavy industries develop in a coordinated manner and industries run by the whole people, collectives, and villages and towns develop simultaneously in various ways, is forming.

While the supply of commodities is growing rapidly in society, reforms in the sphere of commodity circulation are primarily those of giving full scope to the role of the state, the collectives, and individuals to enliven the market. Thus, the operation of a number of provincial, secondary wholesale stations has now been transferred to the central cities, and all types of trade centers for trading industrial, agricultural, and sideline products have been set up. Over one-half of small state-operated shops and service agencies have been reorganized, or transferred, or leased out. An unprecedented number of peasants have opened shops or set up stalls in cities, or engaged in buying and selling businesses, or in providing transport service. Various types of specialized markets have also been opened to meet special needs, and their business is brisk. The network linking urban and rural areas and having ties with other localities outside the province has been expanding each passing day.

The building industry's reforms have been carried out mainly in such areas as management, wage scale, and employment system. A total of 2,539 construction projects in the province have been contracted out through public bidding, and over one-half of the state-operated construction and installation enterprises have adopted the contracted responsibility system of assessing wages on the basis of performing each 100 yuan of service. Regional barriers have also been removed in the employment system. The number of contract workers and temporary workers has increased. Over 300,000 construction workers from the rural areas are working on various construction projects in cities and outside the province. Conspicuous results have been achieved in all of these reforms carried out in the construction industry. Thanks to the adoption of the bidding system, construction cost has dropped between 3 and 8 percent, construction period is between 20 to 30 percent shorter, and the quality of projects and their economic performance have both been improved.

The pace of capital construction projects, especially major ones, has been accelerated. Last year a total of 3,092 projects were completed and commissioned to operation. Of these projects, 1,656 were capital construction projects and 1,436 were renovation projects, involving an additional 903 million yuan of fixed industrial assets. Because of these new projects, the province's production capacity has been expanded. Such key projects as the large chemical fertilizer plant of the Zhenhai Petrochemical Works, the 125,000-kilowatt generator of the Banshan power plant, the Oujiang highway bridge, and the Zhejiang polyester fiber plant, have all been commissioned to operate ahead of schedule.

Along with economic reforms, the feasibilities of reforming the management of science and technology and the educational system have also been actively explored. A total of 19 scientific research institutes in the province have been testing the technical contract system. Schools of various descriptions are now being administered on the basis of their respective levels. Headway has been made in restructuring secondary education. Enrollment in secondary professional schools is now 19 percent higher than the preceding school year, and the enrollment of technical and secondary agricultural and vocational schools is 62 percent higher than the preceding school year. Schools of higher education and polytechnic schools have recruited students for specialized training and accepted special training requests. Beginning last year, schools of higher education in Zhejiang sponsored an examination to test the educational level of self-taught students, and certificates were issued to 19,800 people who passed. People of various circles have also become increasingly interested in setting up schools with self-raised funds. They are attaching increasingly greater importance to setting up all types of schools by various means.

To keep up with the needs in rural and urban reforms, planning as well as labor and personnel management have also been reformed accordingly. With regard to planning, the scope for mandatory plans has been reduced, and the scope for guidance plans and for regulation by market forces has been expanded. In labor and personnel management, the system of hiring the needed personnel through examination, advertisement, or appointment, and the system of hiring workers on contract basis, have been adopted. Exchange programs have also facilitated rational interdepartmental flow of personnel.

The province has made a good start in its work on opening to the outside world. In April, 1984, the State Council decided to further open Ningbo and Wenzhou Cities. Then, it also approved Hangzhou City as a national key tourist city and granted it certain authority with regard to opening to the outside world. This year, the State Council again designated Jiaxing and Huzhou Cities and their affiliated four counties as an open economic zone. Over the past year and more, Hangzhou, Ningbo, and Wenzhou Cities and the concerned provincial departments have done voluminous work in planning, allocation of cadres, negotiations with foreign firms, and infrastructural construction. Presently, the Ningbo joint military-civilian airport has inaugurated the Ningbo-Shanghai air route. The Beilun railroad feeder line has already completed track-laying. The engineering project at the Xiaogang

Economic and Technological Development Zone has broken ground. The survey and designing work on Wenzhou airport and Jinhua-Wenzhou railway is under way. Fresh progress has also been made in the construction of urban public facilities in Hangzhou, Ningbo, and Wenzhou Cities, and in building hotels and guesthouses. Since 1984 we have successively taken advantage of the opportunity for celebrating the fifth founding anniversary of the provincial International Trust and Investment Corp to invite foreign businessmen to attend economic talks in Hangzhou, organize an economic delegation formed by members from Hangzhou, Ningbo, and Wenzhou to visit Hong Kong and attend a symposium there on investment in China's open cities, which was sponsored by the concerned departments of the State Council. These major events have broadened our vision, helped us make friends, and intensified our foreign propaganda work. Overseas Chinese of Zhejiang origin enthusiastically supported China's policy of opening to the outside world. By various ways and means, they zealously contributed to construction in their native places and to revitalizing China. As of the end of 1984, we had signed 26 Sino-foreign joint-ventures and cooperation projects. The total investment was U.S.\$57.8 million. A total of 109 technological items were imported, with a total amount more than double that of the previous year. Much success has also been scored in foreign trade. Exports earned U.S.\$737 million, an increase of 12.7 percent over 1984, an all-time high.

While opening to the outside world, the province has also made fresh progress in exchange programs on economic and technological cooperation at home or abroad with regard to scale, contents, and modalities. The province, cities, prefectures, and counties have forged long-term or single cooperation ties with enterprises, scientific research units, and colleges in other localities. Joint ventures, compensatory trade, and technological transfers which are common international practices have also been extensively applied in Zhejiang Province. According to incomplete statistics, materials cooperations alone in the province reached 932 million yuan, up 89 percent over the previous year. Following advancement in reform and economic development in the urban and rural areas, economic associations will increasingly expand. The strengthening of economic relations among enterprises and regions will open a broad avenue for the development of industry and the entire national civilization, we also strengthened the building of the socialist spiritual civilization in 1984. The various trades and professions extensively publicized a group of typical advanced models who were characterized by the spirit of reform and development among the rank of cadres and the masses to inspire the people to emancipate their minds, to boldly reform, and to strive to make advancement. At the same time, activities were unfolded on the five stresses, four beauties, and three ardent loves and on building civilized units. Nearly 2,000 civilized villages and units were named by the province, cities, prefectures, and counties. Rotational training was given the workers and staff members of the enterprises, in a planned way, on politics, culture, and technology, and a reading drive on revitalizing China was also launched. Young militia and cultural centers were built in the rural areas. In localities where these activities were better carried out, the mental outlook of the masses, particularly the young people, took great changes, and the social atmosphere was further improved. New achievements were also made in education, public health,

culture, physical culture, and sports. Regular colleges enrolled 15,000 new students, 17 percent more than in 1983. Adults attending schools of higher education in 1984 totalled 35,500, up 18.3 percent from 1983. The level of literary and art creation and performance was raised remarkably, and a number of literary and art works, such as "Five Ladies Offer Birthday Felicitations," won national prizes. Zhejiang's athletes did very well in international and domestic tournaments. In particular, they won two gold medals, two silver, and one bronze at the 23d Olympic Games, and thus made an important breakthrough in this province's sporting history. We made tremendous strides in family planning work, as the natural population growth rate in the province dropped to 6.53 per thousand from 1983's 9.52.

The patriotic united front was further expanded. More had been done in minority nationalities' affairs, and Jingning She Autonomous County, the first such county in Zhejiang Province, was founded. The legal system was further strengthened. As a result of our efforts to deal severe blows at crimes, and to improve public order, crimes decreased and public order further improved. While consolidating themselves, the PLA units in Zhejiang, the armed police force and the militia actively took part in, and defended, economic construction, and made great contributions.

To meet the needs of reform and construction, we readjusted and strengthened the leading bodies of all departments at the provincial, city, county, and township levels in 1984. A large number of middle-aged and young cadres with specialized knowledge assumed leading posts. The broad masses of cadres in the province, motivated by party rectification, had further eliminated "left" influence, righted the guidance for their work, boldly carried out reforms, blazed new trails, and strove to create a new situation of the work in their region and department. This had ideologically and organizationally ensured smooth proceeding for reforms and construction in our province.

These achievements were made by all fronts in 1984, under the leadership of the party Central Committee, the State Council and the Zhejiang Provincial CPC Committee. Achievements were the result of joint efforts by workers, peasants, intellectuals, cadres at all levels, PLA units in Zhejiang, the armed police force, democratic parties, and patriots. The achievements were also due to enthusiastic support from veteran cadres. I hereby express my heartfelt thanks to the comrades and friends who made contributions to this province's four modernizations:

Fellow deputies, both our political and economic situation are very good. The policy of invigorating the domestic economy and opening to the outside world, adopted by the party Central Committee and the State Council, has increasingly displayed its effectiveness. The "Decision of the CPC Central Committee on Reform of the Economic Structure," adopted by the 3d Plenary Session of the 12th CPC Central Committee has drawn a blueprint for a socialist economic system, full of vitality. Currently, the restructuring of the economy, with its emphasis on the cities, has started, and our economic structure has begun to break the rigid pattern taking shape over a long period. Our situation



will steadily improve, as long as we firmly take the course charted by the party Central Committee.

Of course, we should not overlook various problems occurring during our advance. Nor should we ignore minor aspects of our work. In the second half of 1984, particularly in the fourth quarter, too many credit loans were granted in this province, and exceeded the planned target. Consumption funds increased too rapidly, and the total payroll rose 25 percent over 1983, exceeding the growth rate of our national income and labor productivity. Some enterprises arbitrarily raised wages and issued bonuses and allowances, both in cash and kind. Too many capital construction projects were undertaken, and investment in capital construction of state-run units alone amounted to 1.7 billion yuan, up 35.9 percent from 1983. These problems caused a strain on energy, raw and processed materials, and transport. The issue of too much currency, together with the consequences of such unhealthy practices as resale of goods by some units and individuals and arbitrary price hikes, has led to a rise in market prices, causing a great deal of complaint from the masses. If we do not solve these problems in good time, they will seriously obstruct the restructuring of our economy and economic construction. Since December last year we have taken measures to cope with these economic problems. To implement the guidelines of the national conference of provincial governors, autonomous region chairmen, and municipal mayors, we held meetings in March to unify understanding; strengthen management of credit and consumption funds, fixed assets, and foreign exchange reserves; promote production of marketable commodities; withdraw a large amount of currency from circulation; recover bonuses and allowances that were arbitrarily issued; and correct unauthorized price increases and other unhealthy trends and punish the offenders. At present, provincial credit loan operations have been brought under control and the rapid increase in consumption funds has been checked. But problems caused by the precipitous rise in credit and consumption funds have not all been solved yet. Our provincial people's government is responsible for the problems that emerged in the fourth quarter of last year. Due to the imperfection of some of its policies and measures, the problems were not discovered in good time and were not resolutely corrected when discovered. It failed to strengthen control and management of macroeconomic activities when it designated powers to units at various levels to enliven the economy. We should conscientiously sum up the experience and lessons learned, firmly improve our work, and, while unswervingly pushing our current reforms forward step by step, strengthen control and management of macroeconomic activities and resolutely correct unhealthy trends so that our national economy will develop in a sustained, steady, and coordinated manner.

II. Since last July, when the Second Session of the Sixth Zhejiang Provincial People's Congress ended, our provincial economy has developed at an unprecedentedly fast pace. A question we are all concerned about is whether this pace is normal and can be sustained. We hold that the pace of development should be analyzed in a practical manner from the dialectic viewpoint of one dividing into two.

Why has economic growth in our province greatly surpassed the expected and planned target? The answer is that aside from the margin contained in our planned target, there were many rational and normal factors we did not properly estimate beforehand. For instance, the development of our economic structural reform, the integration of urban and rural areas, and the expansion of horizontal economic ties among areas and departments at various levels since last year have greatly invigorated enterprises and the national economy as a whole. This inevitably is reflected in the pace of our industrial growth. The bumper harvests in the past few years running and the rapid development of the rural commodity economy have provided abundant raw material supplies to the light and textile industries. The shift of massive rural surplus labor forces and funds to village and town enterprises has stimulated these enterprises. Production capability has grown as a result of the completion of a number of capital construction and technical renovation projects. Stimulated by the people's increased income, consumer demand and the people's purchasing power have grown rapidly. Many commodities have been in great demand and quite a few enterprises have received orders for 1986. All this has stimulated production growth. This shows that as far as the great majority of enterprises and their products are concerned, the rapid development of our provincial economy is in accord with the objective market demand and is the result of the rising enthusiasm of enterprises, workers, and peasants and the better economic efficiency shown by the majority of enterprises.

We must, however, be sober-minded and thoroughly understand the problems that have come with our rapid economic growth. These problems can be boiled down to the following three. First, the rapid growth has further strained capital, energy, and raw material supply as well as transportation. Short supply of energy and raw materials has caused prices to rise. The increase in costs due to enterprises' inability to solve problems has badly affected the enterprises' economic efficiency. Second, the present economic growth rate is, to some extent, the result of the precipitous rise in bank credit and consumption funds during the fourth quarter of last year. Some enterprises can hardly keep their doors open when large amounts of currency are withdrawn from circulation, because they rely on large sums of credit loans or massive imports of raw materials to keep their doors open. Third, to pursue a faster growth rate, some localities and enterprises, influenced by the illusion of "brisk buying and selling," have unrealistically augmented themselves and expanded their production capacities at the expense of technical standards and product quality. Other localities and enterprises, whose growth rates have not been so fast, have felt the pressure imposed on them by others and have gone all out to pursue a faster growth rate without regard for their actual conditions. We must, therefore, persist in the principle of seeking truth from facts and advancing steadily, and firmly avoid pursuing unrealistic goals and vying with one another to attain a faster growth rate. Otherwise, we will overstrain our economic life, prevent the current reforms from advancing smoothly, and adversely affect the sustained, steady coordinated growth of our national economy.

A fundamental principle in our economic development is to give top priority to raising economic efficiency. Of course, if we want to realize the four modernizations and meet the people's rising material and cultural needs, we must maintain an appropriate rate in our economic development. But such a growth rate must be aimed at raising economic efficiency; it must be real and not be artificial; it must be achieved on the basis of our capabilities in funds, energy, transport, and raw and semifinished materials and on the basis of the enterprises' capacity to withstand strains. We must not blindly go after the present high growth rate. Not only must we slow down the growth rate, but must also make special efforts to bring the relations between the various sectors into better balance, to build a sound foundation, and to increase the vitality of enterprises and of the national economy as a whole so as to achieve a normal, sustained, steady, and coordinated growth rate.

Henceforth, in assessing the index of economic development, other areas, except big cities which have already adopted the gross national product as their major assessment method, should also change their method of using total agricultural and industrial output value as the only index of economic development and switch to using national income as their major assessment index. In addition, other indicators such as revenue, labor productivity, and product quality, which reflect economic efficiency, should also be included.

In guarding against and overcoming the tendency of blindly going after a high growth rate, we must uphold the principle of seeking truth from facts, adopt appropriate measures, and refrain from the method of applying an emergency brake for all localities. Economic growth rate is not totally subject to our subjective will because we do not have complete control over it. But if we apply an emergency brake to slow down growth rate in all localities, we will run into trouble. This is because, first, if we simply use administrative measures to restrict production under the present condition in which the market urgently demands commodities and there is an urgent need to withdraw currently from circulation, we will aggravate the contradiction between supply and demand, and thus affect the withdrawal of currency from circulation; second, to ensure taxes for the state and wages and bonuses for their workers, enterprises must rely on increasing production to increase their profits; and, third, there is a need to maintain a balance between revenue and expenditure, and tax payments will decrease as production decreases, and this will certainly affect wage improvement, price subsidies, and the development of culture and education. Therefore, in adjusting the growth of production, it is necessary to take into account the interests of all quarters and pay attention to maintaining the enthusiasm of cadres and the masses. Moreover, we should proceed from reality, differentiate between cases and treat them according to their respective merits, improve market forecasts, and analyze every product to find out whether production should be accelerated or slowed down. We should encourage the production of high-quality, high-performance products that have good prospects, especially products that can be exported to earn foreign exchange. We should control the production of products that are still demanded by markets for the time being but may reach a saturation point in a short time or may soon be obsolete. Instead of blindly expanding the production of these products, we should pay attention to improving their

quality and renovating them. We should as soon as possible restrict the production of low-quality, high-cost products that lack competitiveness, or abandon their production and switch to producing new products. Enterprises that cause serious pollution should be asked to harness their pollutants in a prescribed period of time. If they fail to do so by the end of the prescribed period, they must be asked to stop operation or to switch to producing other products.

One new thing our governments and economic departments at all levels should learn is that they should strive to learn how to strengthen their leadership and control over the macroeconomy while continuing to enliven the microeconomy. Control over the macroeconomy consists of the following four aspects: First, it is necessary to supervise the use of credit funds to make sure they are used effectively. Second, it is necessary to strictly control investment in capital construction, especially nonplanned investment. Capital construction projects that have been approved should be reexamined to determine whether reduction or postponement is necessary. Third, it is necessary to make rational arrangements for and strictly control the growth of consumption funds so as to ensure a balance between foreign exchange income and expenditure. Fourth, it is necessary to resolutely implement the state policy on protecting arable land and to strictly abide by Zhejiang Province's procedures for the control of land for urban and rural construction. There has been a considerable decrease in arable land in our province in the past few years. Especially in 1984, control over the use of land for capital construction was lost, and land transactions became a serious problem. Governments at all levels should pay special attention to this problem and must resolutely put an end to the indiscriminate use of arable land for other purposes. Governments at all levels should also adopt effective measures to broaden the sources of income and reduce expenditures, to improve tax collection and fiscal work, and to cut down on administrative spending so as to achieve a balance between revenue and expenditure and between credit receipts and payments. Departments in charge of planning, finance, auditing, taxes, prices, labor, statistics, and customs as well as banks and administrative bureaus for industry and commerce should devote themselves to their duties, closely coordinate their work, have a good grasp of information at all times, pay attention to overall balance, conscientiously implement the relevant stipulations of the CPC Central Committee, the State Council, and the provincial government, and struggle against violations of financial and economic discipline.

The purpose of strengthening macroeconomic control is to enable the national economy to develop in a sustained, steady, and coordinated manner; its purpose is also to provide a fine environment for reform. It is necessary to establish and perfect some economic laws and regulations that conform with the orientation of reform and are in accordance with the new situation; it is necessary to avoid the phenomenon of "a certain spirit for a certain period of time" and a situation in which there are no laws to abide by and no regulations to observe, in which control is forsaken once enlivening is stressed, and in which outmoded methods are restored once macroeconomic control is stressed, thus returning to old rigid ways.

III. This year is the first year of reform of the economic structure, with emphasis on urban reform. It is also the first year of reform of the scientific and technological structure and of the educational structure. The main task confronting us is to push forward the various reforms and to continue to consolidate and develop the excellent situation, in accordance with the policy of "unswervingly and prudently fighting the first battle to win certain victory." Previously, in accordance with the guidelines of the national conference of governors and the Third Session of the Sixth NPC, as well as with our province's actual situation, we had made arrangements for this year's reform work: First, we were to further enliven the economy by stressing the enlivening of large- and medium-sized state-run enterprises in cities and towns while continuing to enliven small-sized enterprises and collective enterprises, and by reforming the systems of unified procurement and quota procurement of agricultural products and rationally readjusting the production structure in the rural areas, to promote consolidated agricultural, industrial, and commercial management as well as all-round development of agriculture, forestry, animal husbandry, and fishery. Second, we were to take important strides in the reform of price structure and wage systems. Third, we were to carry out the reform of the scientific and technological structure and educational structure under proper leadership and in a planned way. Fourth, we were to further implement the policy of opening to the outside world; rebuild existing enterprises; enhance the quality and competitiveness of products, through imported foreign technology and equipment, as well as joint activities at home; and strive for more exports and foreign exchange.

The key to fulfilling the various reform tasks lies in unified understanding and concerned steps by people at all levels in the province. Currently, all the people in the province are very much concerned about reform, however, the people do not have a completely consistent understanding of reform. Many people support reform, but are somewhat worried about it at the same time. Whether or not it is necessary to slow down and postpone reform, or to unswervingly push it forward in good time, is now a question which requires unified understanding. As a result of the efforts made in the past 3 years, successes have been scored in rural reform. A fine situation has taken place in urban reform, which started not long ago. When things are done well with 3 to 5 more years of efforts, our country's economic outlook will undergo an in-depth change. The problems arising during reform can only be solved through reform and in the course of reform. Reform is a new thing, of which we lack experience, information, and knowledge. With old systems being discarded, new systems having to be established and perfected, and reform measures being incomprehensive, minor mistakes are no strange occurrence. With regard to new problems and new tasks, it is very difficult to demand that everything be considered well beforehand so that there will be no mistakes whatsoever under any circumstances. As far as we are concerned, the most important thing is to be able to discover problems and solve them in good time so that we may continue our advance with the obstacles removed. Since we have embarked on the road of reform, we can only march forward without retreat, and we should be fully confident and unswerving. Certainly, with regard to methods and steps of reform, we must be cautious, conscientious, and prudent.

We should watch every step we take in order to prevent possible risks in a conscientious manner.

The following is a discussion of some of the main tasks in this year's reform and of opinions on how to carry out such tasks:

1. Further Enliven Industrial and Commercial Enterprises, Rationally Readjust the Rural Production Structure

During this year's reform of the economic structure, it is necessary to further enliven enterprises and stress the work of solving problems in strengthening the vitality of large- and medium-sized state-run enterprises. Large- and medium-sized state-run enterprises are major bearers of state-planned tasks and financial revenue delivering tasks, having a great bearing on the development of the entire national economy. In the first half of this year, the province and the various cities and prefectures have all carried out experimental reforms at selected large- and medium-sized state-run enterprises, and have implemented various state regulations on the expansion of self-decision powers of large-sized enterprises. Some 218 enterprises have carried out experiments on plant director (manager) responsibility systems and various economic responsibility systems at selected units. A number of enterprises have carried out experiments on floating wages depending on economic results. Judging from preliminary practices, the results of reform in most of the enterprises have been good, and some experiences have been obtained. However, because of their different situations, the specific methods adopted by these enterprises have been greatly different. It is therefore necessary for them to continue with their experiments until they have obtained relatively reliable experiences as a foundation for carrying out the reform under proper leadership and step by step.

To invigorate large- and medium-sized enterprises, government and relevant departments at all levels should further streamline administration and delegate decisionmaking powers. We must implement, to the letter, regulations already laid down by the State Council and the provincial government concerning the extension of decisionmaking powers of enterprises and work out supplementary measures to carry out the various policies. Regulatory taxes should be gradually reduced on the few large- and medium-sized enterprises which are operated and managed well and contribute much to the state but which retain too little profit for themselves. The proportion of their activity set by mandatory plans should also be reduced. Economic management departments should comprehensively serve enterprises by providing information and through economic, technical, and legal means. Government departments, in principle, no longer directly operate or manage enterprises. The provincial government recently decided, after discussion, to delegate the management of some 50 enterprises directly subordinate to provincial authorities to lower levels. Except for a few which are unsuitable for decentralization, all enterprises directly subordinate to provincial authorities should be delegated to the cities where they are located.

As for the large- and medium-sized enterprises themselves, they must tap their potential, try every means to lower production costs and consumption of materials, and increase their ability to initiate reforms and develop on their own. Currently, enterprises face new pressures as a result of increases in raw materials and energy prices, transportation expenses, and wages. Some large- and medium-sized enterprises whose equipment is outdated and which have many retiring workers face ever greater pressures. However, these enterprises should also notice their potential, turn their attention inwardly, and rely on themselves to change the situation of backward operation and management and waste of human and material resources, increase their digestive ability, and improve management efficiency. They should refrain from solely asking the state to reduce taxes, let them share more profits, or shift the burden onto consumers by increasing prices. Every enterprise should earnestly exercise the power vested in it by the state to successfully implement internal reform, especially the various forms of the economic responsibility system, and to fully utilize its great potential and strong points in personnel, equipment, technology, and information. Every enterprise should formulate its own operation strategy and growth goals, accelerate technological reformation, improve product quality, and develop competitive, well-known products and reserve products. It is necessary to promote "diversified undertakings with emphasis on one," expand production and operation channels, actively develop tertiary industry, vigorously promote economic association and cooperation, expand horizontal contacts, and turn enterprises from closed ones into open ones.

Transportation, energy, and raw materials are still the weak links in our province's economic development. We should work hard to relieve the strains on transportation, energy, and raw materials through reform and by increasing production and practicing economy. Vigorous efforts should be made to raise funds for energy and transportation projects. The province and cities should give priority to transportation and energy projects through investment in fixed assets. It is necessary to strengthen production management and traffic control, place production and traffic safety high on the agenda, and do our best to reduce accidents. In accordance with the principle of "six priorities," we should give priority to daily consumer products which meet the needs of the market, especially brand-name, quality products; to energy and raw materials supply; and to transportation.

In stimulating the rural economy this year, the various localities have reformed the assigned and unified purchasing system for agricultural products. At the same time, they have further readjusted the production structure; appropriately reduced the acreage under grain; expanded diversified undertakings including fruit, vegetable, flower, and nursery stock production, poultry and livestock farming, and aquatic products breeding; and continuously developed village and town enterprises and family-run industries. All these are conducive to increasing market supplies, enlivening the economy in cities and the countryside, and increasing the peasants' income. A problem that merits attention now is to avoid blindly rushing headlong into mass action. "No stability without agriculture, no prosperity without industry, and no brisk market activity without commerce," these words reflect the interdependent

relations of agriculture, industry, and commerce and the indispensability of each of them. Leadership at all levels must strengthen leadership over agriculture. We must not ignore agriculture or rashly destroy grain fields. We should strive to increase per-unit grain output, develop fine varieties and improve grain quality. All the existing, reasonable economic measures of the rural cooperative economy for subsidizing peasants should be continued so as to mobilize the peasants' enthusiasm for grain production.

In readjusting the production structure in rural areas, it is necessary to stress the development of natural resources and strengthen work in mountainous and coastal areas. In a number of the old revolutionary base and mountainous areas and areas inhabited by minority nationalities in our province, the production level and the local people's income are still low. We must adopt more flexible policies toward these areas and give them the necessary support in manpower, technology, and funds. Departments concerned at the provincial, city, and prefectural levels must forge closer economic and technological ties between economically developed counties and mountainous counties in an effort to exploit local resources and step up economic construction in mountainous areas. The provincial people's government has decided to adopt more flexible and open policies toward Panan, Taishun, Jinning, Wencheng, and Yongjia Counties. To help them improve communications facilities and promote production, these five counties will have greater freedom to enter into relief aid-type contracts in constructing hydroelectric power stations and highways and will be entitled to tax reductions or exemptions in order to eliminate poverty.

Poverty-stricken counties should encourage cadres and local people to quickly overcome their backwardness by relying mainly on their own efforts. Some necessary steps should be taken to support offshore islands in their efforts to protect and exploit marine resources; develop coastal and deep-sea fishing; improve aquatic breeding and aquatic products processing; and diversify the local economy by giving full play to their geographic advantages.

An important aspect of readjusting the production structure in rural areas is the development of village and town enterprises. However, it requires meticulous product analyses and careful marketing estimates in accordance with local conditions and public demand so that we will know which enterprises should be promoted and which should be properly or firmly controlled. We must not blindly rush headlong into mass action to expand village and town enterprises. In general, we should emphasize the development of those village and town enterprises that have close ties with urban industries; enterprises that have abundant local resources for supporting food and fodder, building material, and other processing undertakings; foreign exchange-earning enterprises and labor export; and tertiary industries, including refrigerating, storage, transport, sales and marketing, and food services. Village and town enterprises should strive to improve their economic results, correctly handle the relationship between consumption and accumulation, and keep sufficient funds for expanding production. They should not distribute and spend all their accumulated funds.



To meet the requirements for readjusting the production structure in rural areas, service work must be improved in order to raise the marketability of agricultural products by improving product processing and storage as well as circulation channels. This is an important but arduous task. A present phenomenon is that when we call for production of a certain item, it does not take long for producers to flood the market with this item in such great quantities that after a while no one wants it anymore. Government departments concerned at all levels should, therefore, constantly provide market information to peasants so that they will produce and process items in such quantities as needed by the domestic and international market. Meanwhile, it is also necessary to strengthen preproduction and postproduction services and to provide peasants with fine seeds and fodder as well as technical assistance in processing, packaging, storage, and marketing. In addition, various trade and service associations should be set up and competent personnel who are qualified in production techniques, good at management, and experienced in obtaining up-to-date market information should be put in charge of these associations so that they can help and direct the peasants to improve production management.

As for reforms of commerce and circulation, the unified and assigned purchasing quota system for agricultural products has been reformed this year. This reform and the opening of diversified circulation channels have further enlivened the market. A present important question is how to enable state commercial units and sales and marketing cooperatives to meet the new situation, improve their management and work style, get involved in market regulation, and give full play to their leading role in commodity circulation. State commercial departments should forge close ties with production units, and establish a new type of relationship between industry and commerce and between peasants and commercial workers. They must use their own personnel, funds, storage facilities, and transport equipment to provide good services, and stabilize the market by procuring and selling some commodities. State-run large- and medium-sized commercial enterprises should further improve management responsibility systems. Small retail commercial enterprises should be transformed into other types of businesses, rented out or sold to others, or merged, or otherwise reformed. Food grain enterprises should transform themselves from management units into businesses and develop food and fodder production so as to transform grain into processed foodstuffs or fodder. Sales and marketing cooperatives should no longer be government-run but civilian-run enterprises offering various services to serve the rural economy. To enliven circulation, the principle of enlisting state, collective, and individual efforts should continuously be implemented.

Zhejiang's tertiary industry is relatively backward but, with an output value constituting 20 percent of the gross value of the people's production, affects the production, construction, and people's livelihood. Hence, active efforts must be made to develop the industry serving the needs of the people and production in both urban and rural areas. As a primary indicator of the degree of development of socialized production, tertiary industry has a direct bearing on the economic and working efficiency of society. We must regard the

development of tertiary industry as a strategic issue and a major channel for providing employment; we must pay close attention to promoting it.

## 2. Actively and Steadily Reforming the Pricing and Wage Systems in Accordance With the Central Authorities' Principles

Because of the failure to attach due importance to the law of value in developing a socialist commodity economy and the practice of freezing commodity prices over a long period, the people misunderstood freezing of commodity prices as stabilizing prices and regarded it as a component of the planned economy and the superiority of socialism. In fact, the freezing of prices by artificial means caused an irrational pricing system detrimental to both the development of production and the improvement of the people's living standards. Currently, price ratios between different commodities are irrational, and in particular, the prices of mineral products, raw and semi-finished materials, and energy are relatively low, hindering the development of industries while covering up the shortcomings of backward management and technology of number of processing enterprises. The retail price of major farm and sideline products are lower than their state purchasing price, creating an abnormal phenomenon in which the more bumper agricultural harvest we reap, the heavier financial subsidies the state has to pay to buy the harvest. For instance, take the situation in Hangzhou City: state subsidy for every jin of grain was 0.1 yuan, 0.8 yuan for edible oil, 0.24 yuan for pork, and 0.67 yuan for poultry. In 1984, state subsidies amounted to 20.8 billion yuan, and our province subsidized a total of 0.83 billion yuan worth of grain, cotton, and edible oil alone. Moreover, price differentials for a given product with diverse quality are inadequate, and quality products are not sold at a price reflecting their value, dampening the enthusiasm of enterprises to improve product quality and seek technological progress. The relative low prices and fees of tertiary industry also affect its development. Irrational pricing has, to a great extent, hindered solution to problems concerning lodging, tailoring, barber's shops, and public bathhouses in some localities. Therefore, reforming the irrational pricing system has become the key to harnessing the enthusiasm of all quarters, straightening out the relationships between various economic sectors, and promoting a healthy cycle of the national economy. Of course, reforming the irrational pricing system is a complex task which, if done carelessly, will cause panic among the people and price hikes. Therefore, the reform must be carried out steadfastly and in a planned and controlled manner. The current economic situation as a whole is excellent and provides a golden opportunity for reforming the pricing system. We must make determined efforts to successfully carry out the reform.

Having studied the financial capabilities of the state, the capabilities of the enterprises, and the people's capacity to withstand strains, the state has decided to adopt a policy which combines relaxed control with readjustment and aims at progress in measured steps for the pricing reform in 1985 with emphasis on readjusting grain prices in rural areas, lifting price controls on pork and other nonstaple foodstuffs, and appropriately raising short-distance railway transport. In accordance with the State Council's arrangements, reform in these fields has been successively carried out since April and May.

At the same time, appropriate price subsidies have been given to the workers and staff in order to ensure that living standards of urban residents do not decrease. These reform measures have been supported by the broad masses of people. Although marked prices are higher, the situation in general is normal. For example, despite higher vegetable prices since price controls were lifted, there are more varieties, better quality, and greater supply of vegetables than before. Lifting price controls on pork has fired the enthusiasm of peasants in raising hogs and brought about an increased number of hogs at sties, more market supply, and stable prices. The abolition of unified state purchase of grain and institution of purchase according to contract and ratio listed in the contract will facilitate readjustment of rural industrial establishments. All these explain that as long as our policies and measures are correct and as long as we proceed cautiously, in an orderly manner, and step by step, we will be able to successfully carry out the pricing reform while avoiding big price fluctuations in the market.

Of course, we have also discovered that since the fourth quarter of last year, the prices of not only many farm produce and sideline products but also numerous industrial products have risen, evoking chain reactions. As a result, the price index has greatly increased. This is mainly because there has been some loss of control in funds for credit loans and in consumption funds; the scale of capital construction has been too large; too much money has been put into circulation; and the balance between supply and demand has been lost. This is also because the management of the market and commodity prices under our governments at all levels has been poor and has not been strictly examined and handled. A short time ago, some government organizations, enterprises, and institutions and individuals availed themselves of the reform opportunity to raise commodity prices at will and resell at a profit important means of production and consumer goods which were in short supply; some sold at high prices instead of implementing the state allocation, transfer, and purchase plan; some mixed up fake and real contents or changed the appearance so as to raise prices in disguised form. We must adopt strong sanctions against these activities of disturbing the market, sabotaging reforms, and damaging the interests of the state and the masses.

Reforming the price structure and strengthening management over the market and commodity prices supplement each other. From now on, every major price reform measure must be carried out under the State Council's unified plan. The limits of authority at different levels over commodity price management as prescribed by the state must be strictly observed, and no unit is allowed to set commodity prices by bypassing the immediate leadership. State-run commercial enterprises must play the role of main channels, grasp the wholesale position, guarantee an ample supply of goods, and shoulder the responsibility of regulating the market and keeping down commodity prices. Industrial enterprises must proceed from the interests of the whole and guarantee the fulfillment of the product purchase plan. In general, an industrial enterprise must not sell by itself more than 30 to 50 percent of its products whose raw and other materials are mainly supplied by the state at low prices. The price of products to be marketed by an industrial enterprise itself must be set in accordance with the related stipulations of the commodity price

departments. After the decontrol of farm produce and sideline products, products which are of great importance to industrial production, foreign trade, export, and the people's living must be purchased and marketed at negotiated prices under guidance. It is necessary to set reasonable central prices as reference for these products. In addition, it is necessary to adopt the method of negotiating prices by enterprises of the same trade and jointly purchasing and separately marketing, so prices of these products will on the whole remain stable at a reasonable level. It is necessary to reinforce all administrative departments in charge of commodity prices, taxation, and industrial and commercial business, build a mass commodity price supervisory network; and strengthen the management and supervision over the market commodity prices to protect consumers' interests.

On this year's wage system reform, it is necessary to reform step by step the disadvantage of egalitarianism in the current wage system and establish a new wage system which can better embody the principle of distribution according to work so as to lay a foundation perfecting the wage system in the future. The State Council has stipulated that in government departments and institutions, a structural wage system in which wages, including basic wages and length of service allowances, are related to specific work posts will be introduced; and middle and primary school teachers will also receive length of service allowances, so that the wages of workers and cadres will be closely linked with their specific jobs, responsibilities, and contributions. In state enterprises where conditions permit, the method of letting the total payroll fluctuate according to economic performance may be introduced on a trial basis after obtaining approval from higher authorities, thus tying the wages and bonuses of workers to the economic performance of their enterprise and to their personal contributions. In enterprises where conditions are not yet ripe, existing methods should continue but with improvements. Currently, we are stepping up the formulation of a plan to implement wage reform in accordance with the unified plan of the State Council. The planned reform will rationalize our wage system. The wages of our workers and other employees will rise steadily with the growth of production and the national income. Because of our limited financial capability, we cannot raise the wage level too much this year, nor can we solve at one stroke all the problems that have accumulated in the wage system over a long period. However, the current wage increase is much bigger than previous one-grade-higher raises, showing that the state has exerted a tremendous financial effort. Nevertheless, some individuals who received excessive bonuses from their units last year are still dissatisfied with the current wage increase. Therefore, we should do good publicity work to make the broad masses of cadres and people know both the current excellent situation and our existing difficulties, take the interests of the whole into account, and understand that improving their living standards is based on the development of the whole economy. All organizations should conscientiously abide by all the regulations on wage reform issued by the state and ensure that the reform proceeds smoothly; none of them should go its own way.

### 3. Accelerate the Reform of the Scientific and Technological Management System and the Educational System, Promote Coordinated Development of Scientific and Educational Undertakings and Economic Construction

Following the decision on reform of the economic structure, the CPC Central Committee made two more important decisions: One on reforming the scientific and technological management system and the other on reforming the educational system. Reforming the economic structure, the scientific and technological management system, and the educational system share the same general objective, to wipe out China's poverty and backwardness, make it a prosperous and modern country, and build socialism with Chinese characteristics. We should pay attention to reforming the scientific and technological management system and the educational system and ensure their success, just as we are reforming the economic structure.

The decision of the CPC Central Committee on reforming the educational system points out: "The grand task of socialist modernization demands that we should not only boldly use and strive to improve our existing talented people but also enhance to a great extent the whole party's understanding of the importance of educational work, gear education to the needs of the nation's modernization in consideration of possible future trends in the world, and train a large number of qualified personnel at all levels and specialities who can adhere to a socialist orientation to meet the needs of our economic and social development in the 1990's and the early 21st century." The extreme importance of qualified personnel decides the strategic position of education in the modernization program. In recent years, more and more leading cadres at all levels and other cadres and people have understood the importance of knowledge and qualified personnel and the importance of developing science, technology, and education. Many leading cadres have changed their attitude of not concerning themselves with scientific, technological, and educational work; they have personally taken a hand in this work. However, contempt for education, science, and technology is still quite common. Even we, ourselves, have not attached as much urgency to the educational, scientific, and technological work as we do to economic construction, nor have we paid as much attention to education, science, and technology and put them at a strategic position in the modernization program as we do to economic work. Some of our comrades have been very much concerned about economic growth, but have not truly established the far-sighted concepts economic development must foster in the development of education, science, and technology. Some localities and units still discriminate against intellectuals. Some schools are still being occupied, and teachers have been transferred to other work. The period of gaining results from intellectual investment is rather long, usually 5, 10, or even 20, years. Our four modernizations drive will be hampered if we lack the foresight are irresolute in taking action. Firstly, we should unify our thinking and improve our leading skills. We should organize the vast number of cadres, particularly leading cadres at various levels, to conscientiously and repeatedly study the CPC Central Committee's "decision," and the speeches by comrades Deng Xiaoping, Wan Li, and Hu Qili at the National Conference on Education Work. Only through studying the decision and speeches can we truly realize that trained personnel are the key to the success of our modernization

efforts, that education, science, and technology must serve the purpose of socialist construction, and that the latter must rely on the development of the former. Only through studying the decision and speeches can deeply realize that leaders neglecting educational development are short-sighted and immature, incapable of leading modernization work. Leaders at all levels should pay attention to education, just as they have to economic work. We should listen to the opinions of all sectors on reforming educational, scientific, and technological work, study problems in these fields, and discover the causes relating to ideology and work style which created such problems. At the same time, we should study relations between economic development and that in education, science, and technology, as well as how to properly carry out educational, scientific, and technological work, just as we have carried out economic work. After this meeting, the provincial government plans to hold a special conference to study the CPC Central Committee's decision on reforming the education, scientific, and technological research systems, and the speeches on these subjects by leading comrades of the central authorities; as well as to compare and examine progress we have made in this area. After conducting such examination, and a special investigation and study program, we shall take appropriate measures to improve our leadership. After that, we shall hold a province-wide meeting in August to discuss and carry out the various reform measures. Here, I shall first explain work on educational, scientific, and technological reform which we must accomplish this year.

On reforming the scientific and technological research system, this year, we must accomplish work in three areas, based on the requirements that we should make full use of scientific and technical workers, and strive to quickly turn scientific and technological research results into a productive force: 1) We should work hard to expand science and technology markets, and speed up the commercialization of scientific and technological achievements. The more than 500 scientific and technological development and consultative organs established across the province should, based on the guideline of enlivening scientific and technological work, carry out various forms of technical exchange and technology transaction activities. This year, we should strive to set up sales departments at technology markets in Hangzhou, Ningbo, and Wenzhou Cities, in order to establish a technology transaction network centering on urban areas. 2) We should systematically reform the system of allocating funds to science research organizations, and give them more decisionmaking powers. Those developmental and applicational research institutes meeting basic requirements, should actively promote the technical contract system, on the basis of the experience gained from last year's experimental work. Money saved should be used in the development of science and technology. Units engaged in social welfare work, agricultural and forestry research should adopt a fund contract system, while those engaged in basic research work should adopt a foundation system on a trial basis. 3) We should continue to enhance the ability of factories, mine, and other enterprises to absorb and develop new technologies, and strengthen the various forms of cooperative relations between production units, institutions of higher learning, and scientific research units, in order to quickly apply scientific and technological research results to production work. In addition, we should do a good job in digesting and improving important technologies.

In reform of the educational structure, it is imperative to sum up recent years' reform experience from selected places, and conscientiously implement the decision of the central authorities.

First, we should clearly understand that various localities have the responsibility to develop basic education. We should actively implement the system of running different levels of schools by different levels of administrative units. Rural junior middle and primary schools should be run by towns and villages.

Second, starting this year, we should actively promote 9-year compulsory education in a systematic way. We should collect surtax for educational work, and actively gather funds for running schools, in accordance with the regulations of the State Council, and strive to improve conditions in running those schools. Compulsory primary school education should be popularized throughout the province by 1988. Compulsory junior middle school education should be popularized in cities and economically developed areas by 1990, with quality and quantity compatible with the local conditions. Junior middle school, and vocational and technical, education at the same level should be popularized in other places by 1995. The provincial government has drafted the "Zhejiang Provincial Regulations Governing the Implementation of 9-Year Compulsory Education (Draft)," which will be forwarded to the congress for examination and discussion.

Third, we should adjust the structure of secondary, and vigorously develop vocational and technical, education. Within 3 years, the enrollment of students for vocational and technical schools at senior middle school level should be equivalent to the number of students to be enrolled in regular senior middle schools. The present polytechnic, vocational, and technical schools should fully tap their potential and expand their enrollment. In addition, we should systematically change a number of regular senior middle schools into professional senior middle schools. Various enterprises and industrial departments should be encouraged to set up, and run, vocational and technical schools, or establish those schools jointly with educational departments. We should improve the labor and personnel system, and strictly implement the principle of "receiving training first before working on the job." Workers of jobs of a relatively high specialized or technical nature must obtain technical certificates before being assigned to their jobs, in the manner of vehicle drivers.

Fourth, we should improve college-level schools' enrollment methods and the system of job assignment for graduates, and expand their decisionmaking powers. In recent years, schools of higher learning have been developing rapidly in this province. There are currently 42 schools of higher learning, including several building. Generally speaking, we shall not build new schools of higher learning from now on, but concentrate on promptly completing facilities for those schools, and raising their teaching quality. With the exception of Ningbo University, new schools of higher learning will be mainly specialized institutes. Various schools of higher learning should adjust their specialization to met the needs of economic construction and social

development. They should continue to expand enrollment of students for specific purposes, and the training of students for units concerned.

Fifth, we should run normal colleges and schools well, because they are the foundation of educational work. We should make an overall plan and carry it out according to the needs of the gradual implementation of 9-year compulsory education, and the requirements for raising the quality of education. We should lay stress on providing investment funds for normal colleges and schools.

In order to develop educational work, we must increase educational investment proportionally. From now on, the increase in the appropriation of funds for educational purposes by various local governments should be higher than the increase of regular revenue. The average educational expenses for each student should also be gradually increased. In the meantime, we should continue to train people through various channels and levels, including TV and correspondence education, and examinations for people who study on their own.

News, publications, broadcasting, cultural, public health, and physical culture departments should all study concrete measures for cultivating people and structural reform, in the light of their actual conditions.

#### 4. Support Imports Through Exports, Bring Along Technology With Trade, and Do the Work of Opening to the Outside World Well

Since 1984, Zhejiang Province has accelerated the tempo of opening to the outside world, importing technology from abroad, and forging close ties with the interior. But generally speaking, the province is still in an initial, exploratory stage. Viewed from practice in the previous stage, it is first necessary to have a clear, guiding ideology. The purpose of opening to the outside world is to utilize the world's advanced technology and management expertise to improve and transform our enterprises, and enable them and their products to improve competition on the international market. To this end, we must strive to increase production, develop export products, enhance our capability to earn foreign currency, achieve a balance between imports and exports, support imports through expanded exports, and increase the importation of technology through developing foreign trade, while importing technology equipment, and qualified personnel. In drawing up plans for opening to the outside world and engaging talks on utilizing foreign capital and importing foreign technology, Hangzhou, Ningbo, Wenzhou, Jiaxing, and Huzhou cities must target the world's advanced technology, and select more technology-intensive and export-oriented production and scientific research projects for importation, to accelerate the upgrading of products and enhance the capability for earning foreign currency. We must not blindly import those duplicate projects which cannot enhance exports. More importantly, we must not hanker after trading in foreign goods to earn money at home.

Regarding the joint ventures and cooperation projects signed since 1984, we must give priority to those projects which can expand exports and earn foreign currency. Someone must be assigned to take charge of every individual task,



such as approval of projects, negotiations, import of equipment, construction, installation, test runs, and production. In coastal counties and localities with favorable conditions, it is necessary to build a rural economy centering on trade, industry, and agriculture. In the course of readjusting the rural industrial structure, we must give priority to developing export products. We must do more practical work regarding variety improvement, preservation and storage, packaging and transport, and strive to put more agricultural and sideline products and processed goods on the international market.

The open cities must get a clear understanding of their own strategic locations and functions, and formulate far-sighted development strategies and overall plans. With a fine deep-water harbor, which is rare in China, Ningbo City should be built into an important industrial city and a foreign trade port for east China. As an economic center of southern Zhejiang, and a developing port city, Wenzhou City should aim to develop into an important industrial, foreign trade, and port city for southeast China, and an outlet for forging foreign economic relations. As one of the key national scenic and tourist cities, Hangzhou City should aim to build itself into a first-rate one. Hangzhou should play a central role in developing Zhejiang Province's tourist resources, and gradually build an open tourist network throughout the province. Jiaxing and Huzhou should aim at fully bringing into play local strong points, and gradually develop into export commodity bases, capable of harnessing local and foreign resources. Centering on its own strategic objectives, each individual city must constantly study rationalization of its own industrial structure, plan distribution of industry and agriculture, construction of harbors and urban layout, coordination of culture, education, science, and public health with tertiary industry, gradually enhancing understanding and drawing up specific plans. The leaders of the various cities must take into account the overall situation, grasp the main points, and pay attention to bring into play the special characteristics and strong points of the individual cities. Overall plans must be properly drawn up because, once such plans are being carried out, it will be difficult to make changes.

It is essential to draw up long-term plans for infrastructural construction of the open cities. It is also necessary to gradually carry out such plans in the light of financial and material resources and capabilities of the individual cities. Ningbo and Wenzhou Cities must focus attention on improving transport and telecommunications this year. The Ningbo-Beilun Railway should be completed and opened to traffic this year. The Jinhua-Wenzhou Railway and Wenzhou Airport should commence construction this year. Construction of the Zhenhai harbor area and wharves at Wenzhou Port must also be expedited in accordance with state plans. While vigorously boosting production of export products to earn foreign currency, and transforming key enterprises, Jiaxing and Huzhou cities must step up formulation of overall plans, and construction of the necessary infrastructure.

A task dictated by policy, opening to the outside world involves international financing, trade, technology, laws, modernized management, and a great deal of fresh knowledge. Leading cadres at all levels must earnestly and modestly

learn from experts, respect expertise and qualified people, and strive to familiarize themselves with matters involving foreign countries as soon as possible. In addition to training competent hands, all cities should employ specialists in dealing with foreigners, or ask experts and experienced old comrades to be advisors.

New conditions are currently facing our foreign trade work. As the situation in international and domestic markets changes, commodities are quite often scrambled by exporters and domestic traders. As more cities are opened to the outside world, competition among ports becomes daily more acute. Along with reform in the state's foreign trade structure, localities shoulder a greater burden of foreign trade and export tasks. We must make overall arrangements for foreign and domestic trade, arouse localities' and enterprises' enthusiasm to produce export goods, do our utmost to develop sources of export commodities, and take unified action in foreign trade to fulfill, and overfulfill, the state's directive plans for foreign trade and exports. We must adopt a policy of protection and encouragement for our province's famous-brand and quality products. Foreign trade enterprises and producer-supplier units must enforce a system of "four join-togethers and two franknesses," that is, join together in office operations, in production arrangements, in negotiations with foreigners, and in familiarization trips abroad; the prices of exported commodities should be made known to producer-suppliers, and producer-suppliers' charges should be made known to the foreign trade department. The foreign trade department must improve its investigation and study of the international market, provide timely information to producer-suppliers, and do a good job in guiding production, purchasing, and shipping. Producer-suppliers must guarantee to fulfill the directive plans for purchase of export commodities. Surplus commodities, after fulfillment of these plans, should be first supplied to the foreign trade department, in case these surplus commodities are needed by both exporters and domestic traders. The percentage retainment of foreign exchange earnings by producer-suppliers, in accordance with state regulations, must be honored to enable them to import the necessary technology, equipment, and raw and semifinished materials, and to increase their ability to earn more foreign exchange by producing more export products.

While making greater efforts to carry out the policy of opening to the outside world and expanding our exports, we must continue to attach importance to opening to fraternal areas and units at home, developing multilevel horizontal economic links and expanding economic and technical cooperation. Not long ago, the provincial government promulgated provisional regulations regarding fraternal areas' running enterprises in our province, providing them with preferential conditions and conveniences. In mid-June, an economic and technical cooperation consultation meeting of a larger scale will be held in Hangzhou, and all fraternal provinces, municipalities, and autonomous regions will be invited to send representatives, welcoming them to cooperate with our province in all fields. At the same time, we shall make greater efforts to promote relevant cooperative relations between all areas within our province, in particular, between the coastal areas, which are economically more developed, and the mountainous areas in southern and western Zhejiang.

IV. Experience in the past year and more shows that an important guarantee for successful reform and economic construction is: Noble ideals and strict and impartial discipline, a mental attitude of exerting oneself for progress, good social order and customs, and the leadership style of seeking truth from facts. The more we endeavor in reform, in opening to the outside world, and in stimulating the economy, the more necessary to accelerate the building of socialist spiritual civilization and the democratic legal system, and to improve our leadership style and methods.

An extremely important and urgent current task in promoting spiritual civilization is to strengthen the education in ideals and discipline. All achievements in economic construction and reform are inseparable with the spirit of devotion, pioneering, and creativity on the part of the masses of people and cadres. We can name a large number of advanced persons cherishing the ideal of communism, on all fronts and in all sectors. During the "8 March," "1 May," and "4 May" festivals this year, our province had 5 people rated as National Advanced Women, 32 awarded national "1 May Labor Models," 7 units rated National New Long March Shock Brigades, and 32 persons rated National New Long March Shock Workers. Countless others won honor titles and commendations. Among them were members of the Antarctic Survey Team, who took part in the construction of the Changcheng Station in the Antarctic, fearing neither danger nor difficulty oceans away; young fighters who fought valiantly and tenaciously, and sacrificed their blood and lives, in the Self-Defense Counterattack War on the Sino-Vietnamese border; plant directors and managers who were keen on reform, built enterprises through arduous efforts, and kept creating a new situation; and engineers, people's teachers, literary and art workers, and others, who made outstanding contributions at their own posts, by working diligently and quietly and by delving into their lines of work. We may say that ours is an era full of heroes. This is the mainstream of the spiritual outlook of our society. We must carry it forward and develop it.

New unhealthy tendencies have begun to grow under the influence of capitalist, feudal, and other decadent ideologies, and due to relaxation of ideological-political work. Some state organs and cadres have abused their power to seek personal gain by doing business and buying and reselling important state materials, and goods in great demand, for profit; some units have hurt the state financially by indiscriminately giving out bonuses, subsidies, and articles; some units have violated the state policy by raising commodity prices. Not only have these evil practices ruined a number of cadres, they have so downgraded the standard of social conduct, and hindered the advance of economic reforms and national construction. Therefore, on the one hand it is necessary to put an end to these unhealthy tendencies and resolutely and strictly deal with serious cases of violations of law and discipline; on the other hand, it is more important to conduct sustained, lively, and specific education in ideals and discipline among cadres and the masses, by citing both positive and negative examples. This is to strengthen their capability to resist the corruptive influence of capitalist and other decadent ideologies, and to instill in them the viewpoint of serving the people wholeheartedly. Comrade Deng Xiaoping has pointed out that it is necessary to educate the people of the whole country in order to mould them into a people with high

ideals, morals, culture, and a sense of discipline. Of these four points, ideals and discipline are especially important. By ideals, we mean building socialism with distinctive Chinese characteristics, the final realization of communism, the elimination of poverty and backwardness, and the achievement of prosperity and modernization. All our economic, ideological, and political work should aim at mobilizing the entire people, especially the young, to work hard for the realization of this ideal.

Departments in charge of culture, art, information, broadcasting, television, and publication should extol progressive ideas, criticize the bad, and strive to improve the cultural, artistic, and recreational life of the people, to encourage them to seek advancement and not to go after vulgarity. Resolute measures should be taken to streamline tabloids and the showing of videotapes, and to ban illegal pornographic tabloids and videotapes. The standard of health and sports reflect the degree of civilization and mental outlook of a society. We must make further efforts to improve health and physical culture work, and help health and physical culture departments make greater contributions to building a socialist spiritual civilization. Family planning work should be carried out without relaxation, to keep the natural population growth rate in our province at 8.5 percent this year.

It is necessary to adopt a comprehensive method for improving social order. Generally speaking, the present social order is good. Nevertheless, we should not relax our efforts to improve it. We should continue to carry out propaganda work, and conduct education in democracy and the legal system among the masses, especially the young, in order to popularize legal knowledge, and create a good society where everyone understands the law and abides by it. Therefore, we should adopt comprehensive measures for improving social order, and for cracking down on criminal activities and other economic crimes. Public security, procuratory, and judiciary departments should meet the needs of the current restructuring of the economy by providing legal services and legal guarantees to society. Efforts should be made to improve the political and professional quality of the public security, procuratory, and judicial departments, to enable them to do a better job in improving social order.

We should continue to implement the policy on overseas Chinese and their dependents, and the dependents of the personnel who are now in Taiwan, and other united front work policies. We should expand the patriotic united front and strengthen our work regarding Taiwan, in order to promote the great cause of the reunification of the motherland.

Governments at all levels should do a good job in supporting the army, giving preferential treatment to dependents of servicemen and revolutionary martyrs, and placing retired or demobilized soldiers; actively support the revolutionization, modernization, and regularization of the PLA units in Zhejiang; strengthen education in patriotism; have a better understanding of national defense; and improve militia work.

Fellow delegates, the tasks of economic reform and national construction confronting us are glorious, but arduous. People's governments at all levels

must earnestly improve their work methods and work style, and strive to keep abreast of the developing situation; they should remain cautious and conscientious, study hard, do more meaningful work instead of making empty talk, heed the needs of the grassroots units, and serve them well. Governments at all levels should conduct investigations and study to explore new ways for economic and ideological-political work, resolutely implement the decisions and policies of the Central Committee, in the light of local conditions, and persist in solving problems until good results are obtained. Governments at all levels must resolutely do away with formalism and bureaucraticism, and never waste their time on useless meetings, endless trivial disputes, receiving and seeing off guests, and irresponsible, empty talk. In short, it is necessary to work really hard, pay attention to efficiency, and avoid perfunctoriness. Only in this way can we really achieve something, rally, and rely on, the people of the whole province to fulfill or overfulfill the 1985 social and economic development plan, and win initial success in restructuring the economy, focusing on urban areas.

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PROVINCIAL AFFAIRS

GUANGDONG'S INDUSTRIAL OUTPUT, ECONOMIC RESULTS INCREASE

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[Report by Jiang Shunzhang [5592 7311 4545]: "A Good Trend of Simultaneous Growth Develops in Guangdong's Industrial Output Value and Economic Achievements"--XINHUA headline]

[Text] Guangzhou, 11 Jul (XINHUA)--According to the Guangdong economic committee, in the first half of this year, the province has achieved stable growth in its industrial production after exceeding the average national growth rate for six consecutive years.

In the first half of this year, the industrial output values of all cities and prefectures across the province have increased when compared with the same period last year.

During the period, about 78 percent of the province's 56 major products have increased in production volume when compared with the same period last year.

According to the analysis of the Guangdong economic committee, in the first half of this year, the most salient feature in the province's industrial production is that the economic results have improved remarkably, and a good trend of simultaneous growth has developed in the province's output value and economic achievements. According to the province's budgetary statistics, which includes more than 2,500 state-run enterprises, from January to June, these enterprises have fulfilled a gross output value of over 9.44 billion yuan, or an increase of 24.76 percent over the same period last year. They have realized a total profit and tax delivery of more than 2.2 billion yuan, or an increase of 26.71 percent over the same period last year. They have delivered a total profit and tax of more than 1.36 billion yuan, or an increase of 20.9 percent over the same period last year. During the period, the number of loss-incurred enterprises in the province was about 160 less than that in the same period last year, and the total loss was some 10 million yuan less than that of the same period last year.

Economic sources here held that this trend in Guangdong's industrial production this year was the best one since 1979. It symbolizes that the industrial production in Guangdong has entered a new stage.

According to the analysis of Hu Chaoyi [5170 2600 2034], deputy director of the Guangdong economic committee, the major reasons contributing to the stable growth and the simultaneous growth of output value and economic results in Guangdong's industrial production are:

-- The special policies and flexible measures adopted by the province have allowed some 6,000 state-run enterprises, whose output value accounts for more than 50 percent of the province's gross output value, to carry out economic management structural reform, as well as the policy of opening to the outside, earlier than other enterprises elsewhere in China. Thus, these enterprises have decisionmaking power in production, and can organize and readjust their production in accordance with market demands both at home and abroad. According to the province's budgetary statistics of state-run enterprises, in the first half of this year, the gross output value of these enterprises was basically equal to their sales revenue. Furthermore, the growth rate of sales revenue was greater than that of gross output by 4.32 percent, which is unprecedented in Guangdong.

-- Technical transformation and replacement of equipment among the present industrial enterprises have doubled their production capacity. Since 1980, the province has invested 4.7 billion yuan in more than 7,390 items of technical transformation. Among the items, there were technical transformation and replacement of equipment in the province's light, textile, electronics, and machine-building industries as a whole. In addition, a number of industrial enterprises were expanded or built. Not only has this increased production capacity, but also improved the quality of products and developed a number of new products. According to statistics, in last year and the first half of this year, two-third of the gross industrial output value was brought about by technically transforming the present enterprises.

-- In the wake of constant growth of people's income, the demand for high-class durable consumer goods has become greater and greater, which has strongly stimulated the development of industrial production. According to statistics, from January to May this year, the retail sales volume of the province's social commodities totalled more than 12.5 billion yuan, an increase of 34.1 percent compared with the same period last year. The growth rate of retail sales volume of goods was 37.5 percent, which is so great that it has broken the province's record.

CSO: 4006/791

## ECONOMIC DEVELOPMENT ZONES

### NANTONG IMPROVES FACILITIES FOR FOREIGN INVESTORS

OW201112 Beijing XINHUA in English 0909 GMT 20 Jul 85

[Text] Nanjing, 20 Jul (XINHUA)--An airport is to be expanded and a telecommunications building and power plant built at Nantong, Jiangsu Province, to improve facilities for foreign investors.

Nantong [is one] of the 14 coastal cities open to foreign investment.

Located near the city's economic development zone, the airport will be able to accommodate fairly large airliners when the expansion is completed next year.

A 10,000-line program-controlled telephone exchange, to be imported from Japan, will be installed in the 7,000-square-meter telecommunications building scheduled for completion by the end of next year.

The power plant, with a capacity of 700,000 kilowatts, is being built with foreign investment, and is expected to go into operation in 1988.

According to city authorities, Nantong has made rapid progress in improving communications facilities since last year.

About 1,500 vehicles a day have used the car ferry between Nantong and Shazhou on the south bank of the Yangtze River since the service was started last year.

A hovercraft route between Nantong and Shanghai, opened last year, has cut travelling time by up to two thirds, from 6 to 2 hours.

City authorities plan to import two high-speed catamarans to improve sea transport facilities between Nantong and Shanghai.

As well as building infrastructure facilities, the city has signed 84 contracts on using foreign funds and technology with overseas companies since 1984--26 of which have already gone into operation.

CSO: 4020/300



ECONOMIC MANAGEMENT

JILIN ISSUES CIRCULAR ON GENERAL PRICE SURVEY PLANS

SK110825 Changchun Jilin Provincial Service in Mandarin 1030 GMT 10 Jul 85

[Excerpt] In order to resolutely check the problems of unauthorized price hikes and price overruns, the extraction of unwarranted extra fees, and the reckless imposition of fines on people, the provincial CPC committee and government issued a circular to make plans for conducting a general price survey throughout the province.

The circular points out: Our province's economic situation is good, and the reform of the economic structure is being deeply carried out. We have taken an important step in reform of the price system. We have implemented the system of contract purchase of grain and gradually eased restrictions on the purchase of hogs and vegetables, thus promoting the development of production and invigorating the circulation channels. The market prices are basically stable. However, there are still some problems which merit our attention. They are mainly manifested in the following aspects: Since the beginning of this year the prices of some commodities in unrestricted supply, particularly that of vegetables, have risen. The problem of unauthorized price hikes is fairly serious. In addition, the phenomena of collecting unwarranted extra fees and charges and recklessly imposing fines on people are very common. These problems have harmed the legal rights and interests of the masses and enterprises and created bad influence.

The circular calls for efforts to resolutely implement the principles and policies of the central authorities on reforming the price system, to follow the path of doing a good job in controlling arbitrary price hikes, to basically stabilize market prices, and to strive to stabilize or even reduce the prices of nonstaple foods and other items. Special attention should be paid to solving the problem of arbitrarily raising commodity prices, and the problem of collecting additional charges and fees and recklessly imposing fines on people so as to safeguard the interests of the masses and enterprises and to ensure the smooth progress in the reform of the price system.

This province-wide general price survey will be carried out in three steps, including a general checkup by enterprises themselves, reexaminations and sample surveys, and consolidation and handling. Such work will be concentratively carried out in mid-July. Normal price supervisory and check-up work will be carried out in late August or early September.

The circular stresses: In this price survey, we should integrate the efforts of the professional workers and the masses. The workers' commodity price supervisory stations and the voluntary survey groups of the neighborhoods, townships, and towns should play an active part and vigorously participate in this work.

CSO: 4006/786

FINANCE AND BANKING

NEI MONGGOL FINANCE DEPARTMENT REPORT ON REVENUES

SK190030 Hohhot NEIMENGGU RIBAO in Chinese 25 Apr 85 p 2

[Text] In his report to the third session of the sixth regional People's Congress, Li Xinquan, director of the regional Finance Department, said: To strike a balance between revenues and expenditures this year, we must regard the work of increasing revenues and economizing on expenditures as an extremely important task, and attend to this work from now to the end of this year. On the one hand, we should vigorously increase revenues to relieve the contradiction between the demand and the possible supply of funds. On the other hand, we should reduce expenditures, the non-productive expenses in particular, and better concentrate our funds on ensuring the smooth development of the key construction projects and of the reforms in various fields.

In terms of increasing revenues, the people of all nationalities in the region should be mobilized to tap potential and increase production and income in a thousand and one ways. This is the foundation for fulfilling the budget for 1985. All industrial, commercial, grain and other enterprises, as well as all state-run farms and livestock farms, should, based on the achievements of last year, further strengthen management, improve operations, raise efficiency, strive to increase profits, and reduce the deficits by a large margin. It is demanded that total deficits of enterprises drop by more than 25 percent this year, compared to last year. Meanwhile, we should consolidate various kinds of financial subsidies, invigorate those enterprises which are undergoing suspension of operations or are being closed down, and lighten the unnecessary financial burden to some extent.

He said: In the course of helping enterprises increase their production and income, all localities and departments should strengthen the management and collection of taxes, and give play to the role of taxes in regulating the economy and organizing revenues. All tax-paying units should hand in various kinds of taxes in accordance with the state tax regulations. Financial and tax organs at all levels should strictly execute the tax regulations, handle affairs in accordance with laws, and collect taxes at a proper rate. People's governments at all levels should continue to strengthen leadership over the tax work, show concern for and support the work of tax organs, and educate cadres to be honest in performing their

official duties, to observe discipline and laws, and to refrain from arbitrarily reducing going beyond their authority to arbitrarily reduce or remit taxes. In addition, people's governments at all levels should strengthen the collection of funds earmarked for building the key energy and communications projects, and strengthen the sales of treasury bonds in order to actually ensure the fulfillment or overfulfillment of these two tasks.

Li Xinquan said: We should control the increase in consumption funds; curtail administrative expenses, in particular; and strictly control increases in the number of administrative staff and of non-productive vehicles. All departments should cut their budgeted amount of administrative expenses by 10 percent. Based on a fixed amount of expenditures for the fixed number of staff members, each department should fix its own amount of expenses, and this amount should not be changed with the increase or reduction of the number of staff members. Institutional purchases should be cut, and the total volume in this regard should be reduced by 20 percent. Great efforts should be made to reduce expenses in sponsoring meetings and the allowances for business trips. Further efforts should be made to strengthen price control work. At the same time, we should consolidate the standards for hotel and reception station fees, consolidate the allowances for publications, and pay attention to checking up on the debts of workers and staff members.

CSO: 4006/796

## FINANCE AND BANKING

## STATE COUNCIL PROMULGATES BONUS TAX RULES

OW120451 Beijing XINHUA Domestic Service in Chinese 0042 GMT 11 Jul 85

[Text] Beijing, 11 Jul (XINHUA)--"Provisional Regulations on Bonus Tax in State-Owned Enterprises"

(Promulgated by the State Council on 28 June 1984)

(Revised and promulgated by the State Council on 3 July 1985)

Article 1. To promote the state-owned enterprises' practice of adopting an internal economic system, arouse the enthusiasm of enterprises, staff members and workers for developing production and enhancing economic results, gradually raise the level of staff members' and workers' incomes in a planned way, and control excessive increases in consumer funds from a macroeconomic view, these rules are hereby formulated.

Article 2. All state-owned enterprises, which have not floated total wages against economic results, should pay bonus tax on state-owned enterprises (hereinafter called bonus tax) for the various forms of bonuses distributed.

Article 3. Under the bonus tax, enterprises are regarded as obligatory tax payers (hereinafter called the tax payer).

Article 4. Excess amount, progressive tax rate is implemented under the bonus tax, and the tax is counted and levied on a yearly basis at different rates given below:

Exemption from tax is given for total yearly per-capita bonus amounts which do not exceed the 4-month standard wages;

Tax is levied at the rate of 30 percent for that part of the total yearly per-capita bonus exceeding 4 to 5-month standard wages;

Tax is levied at the rate of 100 percent for that part of the total yearly per-capita bonus exceeding 5 to 6-month standard wages;

Tax is levied at the rate of 300 percent for that part of the total yearly per-capita bonus exceeding the 6-month standard wage.

Article 5. Whatever wage system they practice, enterprises are comprehensively allowed, under the state regulations, to enter their standard wages into the cost of the enterprise at the respective grades and standards. Each enterprise is counted as a unit.

For monthly average standard wages of each staff member or worker below 60 yuan, the wage will be counted as 60 yuan.

Article 6. The following bonuses are exempt from bonus tax:

1. Bonuses distributed to mine exploitation, transport, building, and petroleum and natural gas exploitation workers;
2. Prizes given for creations and inventions, according to state regulations, prizes for rationalization suggestions and technological improvements, and prizes for natural sciences;
3. Prizes for conservation of fuel and raw material specially approved for trial implementation;
4. Prizes for expediting loading and unloading of foreign ships;
5. Individual bonuses approved by the State Council to be exempt from bonus tax.

Article 7. Payment of bonus tax should be made in the locality of the tax payer without exception.

Article 8. Tax organizations are responsible for levying and managing bonus tax.

Article 9. Enterprises should pay taxes before distributing bonuses, if and when their yearly, progressively distributed bonuses exceed the 4-month standard wage.

Article 10. To make payment of the bonus tax according to the rules, the tax party should fill out and submit a tax application form to the tax organization; after verification, the tax organization should distribute a tax return form to the tax payer with a submission deadline.

During the period from the end of the year to 4 February next year, all tax payers should submit tax application forms and accounting reports to the tax organization in their locality.

Article 11. Tax organizations have the right to carry out investigations into the tax payers' bonus distributions. The tax payers must make factual reports and produce ledgers, vouchers, receipts, wage tables, and related materials, without concealment or refusal. The tax organizations should keep them confidential.

Article 12. When a tax payer fails to truthfully file tax returns on time, in violation of these regulations, tax authorities may act at their discretion to impose a fine of no more than 5,000 yuan, in addition to instructions to file tax returns within a stated time. In case of failure to pay the tax on time, a daily fine equivalent to 0.5 percent of the delayed payment will be imposed on the delinquent, starting from the day the payment becomes overdue.

Article 13. Bonus tax, a fine, or a delayed payment fine will be defrayed from the fund the enterprise has retained for bonuses for its workers and staff members, and will not be included in its production costs.

When a tax payer-enterprise issues bonuses before paying its tax, and the bonus fund it has retained for the year is insufficient to pay its tax, fine, or delayed payment fine, it should make the payment from its own funds; the borrowed funds will be paid from its bonus fund next year. In this case, tax authorities will impose a fine of 10,000 yuan on the enterprise.

Article 14. When a tax payer in arrears with a tax payment, a fine, or a fine for delayed payment, fails to make the payment after being urged to do so, tax authorities may notify the bank with which he has an account to withhold funds, and make the payment to the state treasury.

Article 15. When a tax payer evades or refuses to pay tax, tax authorities may act at their discretion to impose a fine of no more than 100 percent of overdue tax payment, in addition to giving instructions to file a truthful report on the amount of bonuses issued, and to pay tax within a stated time. In serious cases of violating the criminal law, judicial authorities will investate the criminal responsibility of those directly responsible, in accordance with the law.

Article 16. In the case of a dispute between the tax payer and tax authorities over a tax question, the former will pay tax to the latter according to the latter's decision, and then appeal to higher tax authorities for reexamination. The higher tax authorities will reply to the appeal within 30 days of receipt. Where the tax payer refuses to accept as final the reexamination by the higher tax authorities, he may lodge a complaint with a people's court.

Article 17. The Ministry of Finance will be responsible for interpreting these regulations and laying down detailed rules for their implementation.

These regulations come into force from 1985.

CSO: 4006/786

FINANCE AND BANKING

HUBEI STATE ENTERPRISES DELIVER TAX ON BONUSES

HK190240 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 17 Jul 85

[Text] By mid-July, the province's state-run industrial and commercial enterprises have delivered more than 39.15 million yuan of tax on bonuses, or fulfilling 80 percent of the tax amount due.

Since May this year, the provincial CPC Committee and the provincial government have seriously acted in the spirit of the central instructions on levying the tax on bonuses of state-run enterprises. They have organized tax, financial and other departments to handle the issue by focusing on major profitable enterprises, large and medium-sized enterprises, and focal points. They have been to Jingzhou, Huangguang, Yunyang and Wuhan prefectures and city for investigating the situation of giving bonuses among the enterprises. They examined and checked the amount of bonuses reported by the enterprises, and urged them to perform their duty of tax delivery.

In particular, since June this year, the provincial tax bureau has repeatedly convened relevant meetings, and has organized special staff to collect tax. The cadres of tax departments at various levels have gone down to the enterprises to propagate the tax policy, thereby putting an end to the province's passive situation in tax delivery and speeding up the pace of collection.

On 10 July, an enterprise in [words indistinct] delivered 4.43 million yuan of tax on bonuses in connection with the verified amount. But the pace of collecting tax on bonuses is still slow in some prefectures and Shiyang City.

CSO: 4006/797



FINANCE AND BANKING

GUANGDONG BANK WITHDRAWS CURRENCY FROM CIRCULATION

HK190333 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 18 Jul 85

[Text] The industrial and commercial bank in our province has vigorously withdrawn cash from circulation and has controlled the expansion of money. In the first half of this year, 1.98 billion yuan in cash was withdrawn from circulation. The quota for the withdrawal of cash from circulation for the whole year was overfulfilled.

In the first half of this year, the provincial industrial and commercial bank issued total loans of 7.7 billion yuan, which was 1.8 billion yuan more than in the same period last year. As a result, the production of marketable domestic electrical appliances, food, textile products, and light industrial products greatly increased. As these goods were put on the market, the withdrawal of currency from circulation was speeded up.

The industrial and commercial bank also issued loans of 16.4 billion yuan to support commercial departments' purchase large amounts of grain, food, daily-use goods, and all kinds of lucrative commodities; these items were put on the market. Moreover, it also helped commercial departments promote the sale of overstocked commodities. The amount of retail commodities throughout the province in the first half year was over 30 percent more than in the same period last year and the cash income from the sale of commodities was 40 percent more than in the corresponding period last year.

In addition, the provincial industrial and commercial bank has made good preparations for savings deposits and has increased savings deposits networks and points so as to make it convenient for the masses to deposit money. Savings deposits in the first half year increased by 1.26 billion yuan.

CSO: 4006/797

FINANCE AND BANKING

HUBEI REPORTS SUCCESS IN WITHDRAWING CURRENCY

HK200345 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 19 Jul 85

[Text] Hubei scored notable success in withdrawing currency from circulation in the first half of this year. The provincial people's bank has demanded that the province continue to step up macroeconomic control and achieve liveliness within financial stridency.

The province's economic and fiscal situation was very good in the first half of the year. Savings deposits rose by over 590 million yuan, and currency withdrawn from circulation increased by 110 million yuan, higher than the national average.

The provincial conference of people's bank managers which concluded yesterday fully affirmed the achievements of the first half of the year and also decided to take steps to continue to strengthen macroeconomic control and enliven the urban and rural economy. The main aspects of these steps are: institute the responsibility system for bank managers, strictly control the scale of loans for fixed assets, and hold the bank managers accountable if the size of such loans exceeds the plan; strictly supervise cash payments, and control the abnormal growth of consumption funds; strengthen the management of loans in floating funds; strengthen the [word indistinct] of capital and control of foreign exchange; and raise plenty of capital to ensure the requirements for autumn purchasing of agricultural and sideline products.

CSO: 4006/797

FINANCE AND BANKING

QINGHAI WITHDRAWS CURRENCY FROM CIRCULATION

HK210613 Xining Qinghai Provincial Service in Mandarin 1100 GMT 20 Jul 85

[Excerpts] The industrial and commercial banks in Qinghai have taken steps this year to strictly control currency in circulation and organize its withdrawal. From January to June, some 110 million yuan were withdrawn from circulation in the province. The banks have focused on the following tasks in carrying out this work:

1. They have carried out a major inspection of cash management and organized the return of cash to the banks. The Haidong branch of the bank sent eight work groups composed of 16 cadres to inspect the cash in the county branches. They inspected a total of 215 units and took back 150,000 yuan in cash which were in excess of deposits.
2. The banks have worked with the commercial departments in withdrawing more currency on the basis of supplying commodities to the markets. Apart from releasing stockpiled commodities in high demand onto the markets, the province's commerce departments have also organized supply of commodities from other provinces to boost the withdrawal of currency from circulation. The Pingan County industrial and commercial bank issued 1 million yuan in temporary loans to support the commercial departments in purchasing television sets, bicycles, and good brands of wine and cigarettes, so as to withdraw more currency.
3. The banks have increased interest on savings deposits, readjusted their manpower composition, increased efficiency, and so on to stimulate the development of savings. This has accelerated the withdrawal of currency from circulation. By the end of June urban savings deposits in the province amounted to 540 million yuan, representing 94.1 percent of the quota for the year.

CSO: 4006/797

FINANCE AND BANKING

SHAANXI BANKS RECOVER LOANS FROM RURAL ENTERPRISES

HK200615 Xian Shaanxi Provincial Service in Mandarin 0500 GMT 20 Jul 85

[Text] The provincial agricultural bank has actively helped township enterprises to tap potentials and ease the contradiction between supply and demand in capital, while controlling the scale of loans to these enterprises.

The amount of loans issued by this bank to these enterprises this year has already exceeded the quota for the whole year set by the state. While controlling the scale of the loans, the agricultural banks throughout the province have first taken steps to help the enterprises to reduce irrational holding and use of capital and speed up the turnaround of capital. This has been done in conjunction with the reality of township enterprises holding a lot of capital with little economic effect. The banks have applied the method of macroeconomic control and micro-economic invigoration.

In the first half of this year, the agricultural bank system in the province recovered over 23 million yuan in loans through helping the enterprises to handle stockpiled materials. As a result of this the enterprises that had received loans increased their income by 63.4 percent compared with the same period last year. There has been a notable improvement in the effective use of capital.

The agricultural banks have also helped the township enterprises to make extensive use of capital in society. By the end of June, the enterprises receiving loans were holding and using 35 million yuan more in capital raised in society than at the beginning of the year.

As a result of these measures, in the first half of the year, the province recovered 175 million yuan in loans due for repayment and irrational loans. The agricultural banks have used these recovered funds to solve the floating capital requirements for over 3,000 new and old enterprises and the continuing capital requirements of 2,500 semi-completed projects. Thus the losses caused to some enterprises due to the control of loans have been reduced.

CSO: 4006/797

FINANCE AND BANKING

BRIEFS

SICHUAN PEASANTS DEPOSIT MONEY--In the first half of this year, the province's savings deposits balance in the rural areas totaled 3.76 billion yuan, an increase of 150 percent over the same period last year. The per capita savings deposits was 42 yuan. From January to June, the province extended 4.86 billion yuan of agricultural credits, an increase of 38.9 percent over the same period last year. [Summary] [Chengdu Sichuan Provincial Service in Mandarin 1030 GMT 16 Jul 85]

QINGHAI SAVINGS DEPOSITS INCREASE--In the first half of this year, the amount of savings deposits in urban areas in Qinghai Province sharply increased by 106.49 million yuan. The province overfulfilled the state quota for savings deposits for the whole year by 12.1 percent. Of the increased savings deposits, 76.7 percent were fixed deposits. Since the state increased the interest rate of savings deposits on 1 April, the urban residents' enthusiasm for taking part in savings work has been further aroused. The increased savings deposits from April to June amounted to 57.27 million yuan, representing 53.8 percent of the savings deposits in the first half of this year. [Summary] [Xining Qinghai Provincial Service in Mandarin 1100 GMT 12 Jul 85]

HAINAN BANK CONTROLS LOANS--The region's agriculture bank has done a good job in strictly controlling loans and enlivening the credit business. From January to May this year, it had reduced various loans by 173 million yuan and granted loans of 311 million yuan to state-run agricultural enterprises and rural areas, an increase of 140 million yuan over the same period last year. [Summary] [Haikou Hainan Island Service in Mandarin 0400 GMT 5 Jul 85]

HENAN STATE TREASURY BONDS--Beijing, 4 May (XINHUA)--The people of Henan Province have enthusiastically purchased state treasury bonds. By mid-April, the province had paid more than 63.7 million yuan to the state. One-third of the counties in the province had overfulfilled the targeted purchase tasks. [Excerpt] [Beijing XINHUA Domestic Service in Chinese 0932 GMT 4 May 85]

BEIJING TREASURY BOND SUBSCRIPTION--By the end of April, Beijing Municipality had overfulfilled its treasury bond subscription task. The municipality subscribed to 186,339,200 yuan in treasury bonds, exceeding the quota by 3.53 percent. Bonds subscribed by urban people totaled 98.31 million yuan, exceeding the quota by 5.6 percent. [Excerpt] [Beijing BEIJING RIBAO in Chinese 13 May 85 p 1]

BEIJING CURRENCY CIRCULATION--In the first 5 months of this year Beijing Municipality withdrew 1.09 billion yuan from circulation thanks to increased supply of readily marketable light industrial and textile goods, arrangements for commodity supplies through various channels, and control over the irrational introduction of money. Compared with the same period of 1984, this showed a 50 percent increase. In the same period savings deposits of urban and rural people increased by 17.6 percent, or 680 million yuan. Of this sum, the savings deposits of urban people increased by 480 million yuan and those of rural people by 200 million yuan. [Summary] [Beijing BEIJING RIBAO in Chinese 8 Jun 85 p 1]

CSO: 4006/797

## MINERAL RESOURCES

### BRIEFS

QINGHAI GOLD PRODUCTION--The province has rapidly developed gold production in recent years. According to statistics, the provincial heavy industry department and the provincial people's bank have issued a total of 21,600 certificates for digging gold this year, an increase of more than 100 percent over last year. By the end of April, the banks in the province have purchased 934 grams of gold, an increase of more than 100 percent compared with the corresponding period of last year. [Summary] [Xining Qinghai Provincial Service in Mandarin 1100 GMT 26 Jun 85]

NEI MONGGOL GOLD PRODUCTION--Nei Monggol Region had overfulfilled the 1985 state-assigned gold production plan by the end of June, showing an increase of 8 percent over the same period of the previous year. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 5 Jul 85]

CSO: 4006/797

## INDUSTRY

### SHENYANG TO RETOOL MAJOR MACHINE TOOL PLANTS

OW060438 Beijing XINHUA in English 0250 GMT 6 May 85

[Text] Three major plants that now produce 10,000 machine tools a year in Shenyang, capital of Liaoning Province, will be retooled, provincial officials said.

A total investment of 120 million yuan will be made for this purpose during a five-year period ending 1990, the officials added.

Emphasis in the technological transformation program will be laid on computerized machine tools to turn Shenyang into a center of numerically controlled systems, they explained.

The Liaoning Precision Machinery Plant is to be turned into a specialized numerically controlled machine tool plant.

It has produced 200 such machine tools since 1972, accounting for nearly half of the national output. The three plants are expected to be producing 600 annually by 1990.

CSO: 4010/160



INDUSTRY

ZHAO MINSHENG SPEAKS AT MACHINE BUILDING INDUSTRY MEETING

OW091256 Beijing XINHUA in English 1045 GMT 9 Jul 85

[Text] The first six months of this year saw a dramatic 33 percent rise in the output value of China's machine building industry, which reached 37.7 billion yuan. Zhao Minsheng, vice-minister of the machine-building industry, said at a meeting today that increases over 30 percent were recorded in Liaoning, Jiangsu, Sichuan, Tianjin, Henan and Heilongjiang, and over 45 percent in Anhui, Guangdong, Guangxi, Fujian and Qinghai.

There were big production increases in 37 major products controlled by the state. Petroleum equipment went up 40 percent, electrical equipment, 50 percent and motor vehicles, 49 percent.

The vice-minister said China was also speeding up research and development of such technologically important equipment as a rolling machine for seamless steel tubes, which should be completed by the end of this year; coal mining equipment with a capacity of 10 million tons; and a 300,000-kw power generating unit built with imported technology.

The upturn in production in the machine building industry, he said, could be attributed to the growing demand for electric machinery and the willingness to pay higher prices for better quality.

Zhao warned that there was still a quality problem in machine building perhaps because of the rapid development. He urged factories to slow down the current production speed and give priority to improvement of quality, variety and technological standards.

CSO: 4010/160

INDUSTRY

PRC MOTORCYCLE INDUSTRY TO BE DEVELOPED

HK070456 Beijing CHINA DAILY in English 7 Jul 85 p 3

[Text] China, known as a "kingdom of bicycles" by foreigners, is turning her attention to motorcycles. Speaking at the first national planning meeting of the motorcycle industry which opened in Beijing on Thursday, Yang Keng, vice minister of the Machine-Building Industry, said China expected to turn out 800,000 motorcycles this year, 54 percent more than in 1984, XINHUA reports. He said China planned to develop the industry at an annual increase of 20 percent over the next five years.

China now has more than 100 motorcycle factories, employing 150,000 workers. In order to improve manufacturing technology and variety, China has imported advanced technology and production equipment from Japan, Italy, Federal [Republic of] Germany, France, Switzerland and Australia.

The Jialing Machinery Factory in Chongqing, Sichuan Province, the biggest motorcycle manufacturer in China, produced 180,000 motorcycles last year and plans to manufacture 250,000 this year. China produced 520,000 motorcycles in 1984, 11 times the output of 1980, and also imported a number from foreign countries.

The waiting list for motorcycles now stands at two million--more than twice the annual production capacity of China's motorcycle industry--as more and more prosperous rural workers and farmers favour the convenience of higher speed in their daily activities, CHINA DAILY was told.

In the country's major cities, however, sudden increase in the number of motorcycles has created new problems for traffic departments, causing some cities to take restrictive measures against the new "cavaliers." In Beijing, motorcyclists were involved in nearly 100 accidents in the first five months of this year, resulting in 14 deaths and 67 persons injured. This quadruples the figure for the same period last year. Traffic officials blamed this on the dramatic increase in the number of private motorcycles. Beijing now has more than 26,000 private motorcycles, nearly half of which were registered this year.

The capital's Public Security Bureau has already suspended registration of new motorcycles in the urban area. Newly-registered rural motorcycles are restricted to the outside perimeter of Beijing's Third Ring Road, which runs around the city at a radius of about five-kilometres from the city centre of Tiananmen Square. All motorcyclists have been cautioned to wear helmets from July 1 in the city area.

CSO: 4010/160

INDUSTRY

PRC MOTORVEHICLE 1985 PRODUCTION INCREASE

OW151817 Beijing XINHUA in English 1757 GMT 15 Jul 85

[Text] China turned out 205,000 motor vehicles in the first six months of this year, 48 percent more than in the corresponding period of last year, according to a spokesman for the China Automotive Industry Corporation here today.

China's two largest auto plants, in Jilin and Hubei Provinces, respectively produced 45,383 and 40,460 motor vehicles during the period, a corporation official said. Many plants have begun production of new models to meet the market demand since the beginning of the year. One plant in Nanjing and another in Jinan are now manufacturing batches of new models of three-ton trucks and 10-ton trucks.

The Automotive Corporation announced earlier this year that China aims to produce 363,000 motor vehicles by the end of 1985.

CSO: 4010/160

INDUSTRY

BRIEFS

NEI MONGGOL INDUSTRIAL PRODUCTION--Nei Monggol Region fulfilled 51 percent of the annual industrial production plan in the first half of 1985, an increase of 18.18 percent over the same period of 1984. The output of 80 of the region's 100 major industrial products showed an increase of varying degrees over the same period of the previous year. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 6 Jul 85 SK]

CSO: 4006/791

CONSTRUCTION

GAO DI CONVENES ON-SPOT CONSTRUCTION SITE MEETING

SK180550 Changchun Jilin Provincial Service in Mandarin 1030 GMT 17 Jul 85

[Text] On the morning of 17 July, at the construction site of the province's No 216 project and the construction site of the provincial color television center, an on-the-spot meeting was convened by Gao Di, secretary of the provincial CPC Committee; Wang Zhongyu, deputy secretary of the provincial CPC Committee; (Xu Jisheng), Standing Committee member of the provincial CPC Committee and director of the provincial Propaganda Department; Xiao Chun, secretary of the Changchun City CPC Committee; (Li Shu), vice mayor of Changchun City; and by leading comrades of the pertinent departments under the provincial people's government.

That afternoon, the provincial and the Changchun City leading comrades inquired in detail about the development of the projects at these two construction sites. On hearing the fact that these two projects are faced with a shortage of funds and the delayed supply of construction materials, these leading comrades paid great attention to these problems, immediately solicited opinions from the pertinent departments, and called on these departments to solve these problems as soon as possible.

Having heard the reports by (Zhu Wencai), director of the provincial Broadcasting and Television Department, and (Wu Jingchun), director of the provincial Cultural Department, Gao Di, secretary of the provincial CPC Committee, pointed out: These two projects are cultural facilities as well as the key projects of the province. We should ensure the quality of the construction. We should do better jobs in strengthening the building of socialist spiritual civilization. Although the provincial financial departments are having some difficulties at present, priority should be given to ensuring the funds for developing the cultural, educational, press and broadcast undertakings. The expenses in administration work should be reduced, while those in the cultural, educational, and propagation aspects should be increased properly. This should be regarded as a guiding ideology.

Comrade Gao Di also called on the Jilin Television Station to make full use of existing conditions under the current situation, to transmit more excellent teleplays in order to provide the people across the province with more spiritual grain of healthy and rich content and relatively high artistic level.

At the on-the-spot meeting, responsible comrades of the provincial Financial Department, the provincial Construction Department, the provincial Supplies Bureau, and the Changchun City Construction Commission expressed: Although these two projects are faced with a shortage of funds and materials, we should try every possible means to ensure the time limit and quality of these two projects.

CSO: 4006/796

## DOMESTIC TRADE

### VIRTUES OF ITEMIZING PURCHASES DISCUSSED

Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 12, 5 Dec 84 pp 35-36

[Article by Ding Qiwen [0002 0796 2429]: "The Case for Expanding the Scope of Guidance Planning"]

[Text] A major weakness of our planning in the past was our tendency to lump together economic planning systems and different forms of planned management. Mention economic planning, and people invariably think of mandatory targets. As a result, command planning came to be seen as the only form of planned management, and planning became more and more rigidified. Actually, the relationship between planned economic systems and planned management is one of substance as well as of form. They are related to and yet differ from each other. While social mass production and public ownership of the means of production dictate that we must follow a planned economic system, we are still free to take concrete realities as our point of departure and adopt a particular form of planned management which meets the requirements of objective economic principles.

China's economy at present consists of various sectors, the dominant being the state-owned sector. Productivity varies quite sharply among industries and enterprises. A host of large-scale and highly socialized, mechanized and automated mainstay enterprises exist side by side with myriad semi-mechanized small and medium-sized enterprises partly or wholly dependent on manual labor. According to 1982 statistics, large and medium-sized enterprises made up only 1.39 percent of all enterprises in the nation, but accounted for 44.5 percent of total industrial output value. Small enterprises not only made up the bulk of enterprises but also accounted for 55.5 percent of industrial output value. Agricultural production basically remains dependent on manual and semi-manual operations. Since the degree of socialization is not uniform throughout the economy, planned management must be appropriately diversified and flexible. What is the situation in the different sectors? According to 1982 statistics, industrial enterprises collectively owned by the whole people, which constituted 22 percent of all enterprises, accounted for 77.8 percent of total industrial output value; while collectively-owned enterprises, which made up 78 percent of all enterprises, contributed 21 percent. Agriculture is basically a collectively owned economy. In addition, there were about 3.2 million rural and township individual laborers. Different ownership systems

offer different economic benefits and pose different demands for planned management. This diversity is another reason why we must adopt flexible, diversified forms of planned management. Add the fact that China is a huge country with an enormous population, an array of natural, social and economic differences between different localities and a lack of adequate convenient communications, and you have a case for strengthening centralized management, on the one hand, so as to concentrate limited material and financial resources on key construction projects; and, on the other, demanding that localities take the initiative to exploit their strong points, discard their weaknesses and plan their economic activities in accordance with local conditions. The danger of imposing a single system on the whole country must be avoided.

Another important fact is that China's planned socialist economy at the present stage exists in the midst of extensive commodity production and exchange. Since commodity, currency and prices permeate every aspect of society, the economy, and daily life, the law of value is bound to have a far-reaching effect on production, circulation and distribution. Consequently, economic planning must not only observe basic socialist economic principles and the law of proportionate national economic development, but should also take the law of value very seriously and apply it conscientiously. Only by replacing our previous rigid form of planned management with more flexible, diversified arrangements can we meet this new requirement.

It is with these realities as our point of departure and on the basis of China's 30 years of experience in planning that we advance the three methods of managing the national economy: command planning, guidance planning and market regulation. This is a major breakthrough and has achieved increasingly visible results.

But one question still remains: should command planning be the dominant form of management? In practice, to emphasize command planning and strengthen its use must inevitably take us back to square one because of the coercive and mandatory nature of command planning: its decisions must be carried out. In the past we placed too many products and economic activities within the broad sweep of command planning and the result was a stifled economy. This lesson must be seriously learned.

"The Resolutions of the CPC Central Committee Concerning Structural Economic Reforms" are explicit: "To reform the existing planning system, we must narrow the scope of command planning step by step and expand that of guidance planning appropriately." It is absolutely crucial that we do so for the following reasons. First, adjusting the scopes of command planning and guidance planning is essential to thoroughly implementing the principle, "Take care of major things and let the minor aspects take care of themselves." Since our planning system previously suffered from excessive centralization and rigidity, overemphasized command planning at the expense of market regulation and ignored the market mechanism, which all made for sluggish economic growth, it is only logical that we now seek to handle correctly the relationship between centralization and decentralization, rationally limit the scope of command planning and expand that of guidance planning, recognize the role of the market and put it to work for our planned economy. In fact, command planning cannot possibly concern itself with the entire national



economy with its immensity, complexity and multiple layers and sectors. It is not only infeasible but downright harmful to insist on subsuming all economic activities into command planning, a point proven by numerous facts in the past. Considering China's present economic conditions, command planning must be confined to those portions of essential products that impact on the national economy and that must be allocated and distributed by the state and major economic activities which affect the whole situation. As for the numerous other products and economic activities, we may either apply command planning or let the market regulate them, depending on the merits of the case at hand.

Many comrades now know very well that enterprises are relatively independent commodity producers and economic entities with their own interests. Enterprises will be better prepared to organize production flexibly, in light of their own conditions, modernize themselves technologically and increase results if we reduce and broaden rationally the scopes of command planning and guidance planning respectively, let them decide what to produce and how much as well as the kinds and specifications of their products in the direction recommended by the nation plan and in line with market supply-demand conditions, and allow them to interact freely with one another. This is the only way to breathe life into the microeconomy. Enterprises are the "cells" of the national economy. Only when they come to life can the organism, the national economy, do likewise.

Guidance planning is also a component of national economic planning, but it is flexible, links decision making on the macro level with that on the micro level, and is a better galvanizer of the interests of the three parties, the state, the collective and the individual, stimulating each party's initiative. In the early 1950's, for instance, in our guidance planning for privately owned industrial and commercial enterprises, we did not go in for target-setting, much less command planning. Instead we placed orders with the enterprises for processing materials or supplying manufactured goods, offered them distributorships to sell goods for the state on a commission basis, and creatively manipulated the price policy to bring them into the fold of national planning. The results were a prosperous market and much-sought-after products. Now that we have both positive and negative experiences, we can certainly bring out the best of guidance planning even more clearly, provided that we do our work properly.

Guidance planning, of course, does not exist in isolation. It really comes into its own only when the state has a firm grip on the overall economy by imposing command planning on key products and enterprises.

Another reason why we must narrow and broaden the scopes of command planning and guidance planning respectively, as called for in the "Resolutions," is that such a step is indispensable to improving planning and making it more scientific. At present, our socialist economy is a planned commodity economy based upon public ownership. It follows that when we go about drawing up and implementing a plan, whether it is of the command or guidance variety, we must follow the law of value and apply it conscientiously. In this respect, guidance planning is obviously more adaptable than command planning because it can more directly make an enterprise take note of the market and supply-demand

changes. This, in turn, will help planning agencies keep abreast of the latest economic data and thereby improve the scientific quality of their work and their ability to regulate the economy with economic means. An enlarged role for guidance planning, with all its positive effects, will even facilitate the proper implementation of command planning. In the past, as the state centralized planning and command planning controlled every national economic activity, planning powers flowed strictly from top to bottom and planning agencies became preeminent. In the process, the national economy, a mosaic of interacting, intrinsically-related activities, was artificially fragmented through administrative fiat. Enterprises produced what they were told to produce, instead of making what the market needed. In fact, they ignored the market and overlooked technical progress, the inevitable result of which was a divorce between planning and reality. Planning agencies, for their part, were so preoccupied with calculating planning targets, fixed assets investments and capital construction that they reneged on their efforts to deal with long-term strategic issues and examine key proportionate relationships in the national economy. Their prioritizing militated against both achieving an integrated balance in the macroeconomy and vitalizing the microeconomy. The adoption of the three forms of management paves the way for planning improvements.

Will the national economy get out of control if we expand the scope of guidance planning prudently? The answer should be no. Two reasons: first, we can ensure that the state retains firm control over key products and major economic activities which affect the national economy and the people's livelihood through necessary command planning. Second, the state can guide and regulate the overall economy by manipulating prices, taxes, interest rates, wages, financial subsidies and other fiscal and material devices. In this way, the coordinated development of the national economy will be assured.

12581

CSO: 4006/528

DOMESTIC TRADE

BRIEFS

CONTROLLING FALSE ADVERTISING--Beijing, 6 Jul (XINHUA)--China will tighten controls on advertisements and ban false ones, today's ECONOMIC DAILY reports. The State Administration for Industry and Commerce will renew only the licenses of qualified advertising agencies. Others must conform within a set period or close. Such agencies have jumped from 10 in 1978 to 4,000 now. Business was worth 360 million yuan in 1984. They have enlivened circulation, but abuses have occurred. Some advertisements maligned rival products. Some Chinese products were said to be foreign. A company in Zhangjiakou City, Hebei Province, promoted sales of "aluminum" ingots containing pig iron, lead and stone in five provinces. The new rules bar individuals from advertising and mass media from disguising advertisements as news. Foreign advertisers are to be charged unified, state-fixed prices. [Text] [Beijing XINHUA in English 1135 GMT 6 Jul 85]

CSO: 4020/298

## FOREIGN TRADE AND INVESTMENT

### SHANGHAI BELL TELEPHONE JOINT VENTURE DESCRIBED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 85 pp 5-7

[Article: "A Successful Example of Importing State-of-the-Art World Technology; Interview with General Manager Long Tian Si of the Shanghai Bell Telephone Equipment Manufacturing Co, Ltd, a Chinese-Belgian Joint Venture"]

[Text] I was introduced to the Shanghai Bell Telephone Equipment Manufacturing Co, Ltd, a joint venture between China and Belgium still in its preparatory stage, when I was attending an international conference in Shanghai recently. I was informed that its creation signals that China has the capability to make the world's most sophisticated telephone exchange equipment, equipment so advanced that it can meet international telecommunication needs in the year 2000. So I went to interview Mr. Long Tian Si [phonetic 7893 3944 2448], general manager and Belgian representative of the Shanghai Bell Telephone Equipment Manufacturing Co, Ltd, the Chinese-Belgian joint venture introducing this state-of-the-art technology to China.

Before I met with the Belgian representative, I was informed by Mr. Li Dalai [2621 1129 0171], the Chinese representative and deputy general manager of the company, that Mr. Long Tian Si is a most dedicated industrialist. Because of his decision to take up the general managership in China, he sold his two cars and a house in Antwerp, Belgium, and sent for his wife and children to join him here. Moreover, he sends his two children to a Chinese school. This preamble only made me more eager to interview the general manager.

Speaking in French with a Flemish accent, Mr. Long Tian Si began a spirited conversation with me. He said that Belgium is a very small country but Bell Telephone Company has the world's most advanced telecommunications technology, which it is very honored to be able to supply to China, one of the world's major powers. Through technology transfer, moreover, China will be capable of producing on its own high-quality programmed telephone exchange equipment and training highly skilled engineering and technical staff within 3 years. Mr. Long Tian Si said he was most pleased to be here as representative of this significant project to cooperate with Chinese friends.

Mr. Long Tian Si then briefed me about the joint venture. It has three investors, namely, China Post and Telecommunications Industry General Company, which put up 60 percent of the capital; Bell Telephone Company of Belgium, 30

percent; and the Development and Cooperation Fund of the government of the Kingdom of Belgium, 10 percent. The contract for the joint venture was signed on 31 July 1983 and will remain effective for 15 years. Its board of directors met for the first time in December 1983 and work on the production line and various activities began in January 1984. The project primarily involves the construction of a production line which can produce the S1240 digital telephone exchange system with 300,000 lines, including an assembly line, a spare parts production line, a multilayer printed circuit board production line, a special large-scale integrated circuit production line and a software production center. The contract stipulates that the first 2 years are preparatory, during which the company will conduct market surveys, put up a plant and accept orders, and that the assembly line of the project will go into operation in 1986. But in view of the urgent demands of communications development in China today, the company will begin production for domestic consumers beginning the fourth quarter of 1985. The spare parts production line will go into operation in 1987, followed by the integrated circuit production lines in 1988. The whole project is expected to be completed by 1989. At present the company has already received more orders than it can handle in 1985. In other words, it has made a very good start.

Given that this is a joint venture involving the latest technology and my own interest in technology transfer, I presently steered the conversation in that direction. The general manager told me the contract provides for continuous technology transfer; throughout the period when the contract remains in force, Belgium will supply China with achievements and experiences in telecommunications technology to ensure that its products are the most advanced. There are three aspects to technology transfer: first, the transfer of the necessary technical data; second, the Bell Telephone Co will train Chinese engineering and technical staff in Belgium. At present, there are 100 such trainees in Belgium and more are expected to go there next year. Third, Belgian experts will be coming to China to provide on-the-job production guidance. Beginning January 1985, Belgium will send 30 experts to China in the next 2 years to supervise production.

Referring to the market for products of joint ventures, Mr. Long Tian Si said, "Undoubtedly we have quite a few competitors, which will create some problems for us in the market." But he remains optimistic and considers market prospects favorable because of its size. According to data given them by the Ministry of Posts and Telecommunications, China needs 10 million lines before 1990 and 33 million lines by the year 2000. He finds a market on such a scale very encouraging.

Asked how joint ventures balance their foreign exchange, he said, "People can pay for our products with either renminbi or foreign exchange. Joint ventures balance their foreign exchange through the Bank of China."

Asked whether the company has run into any difficulty in its preparatory stage, Mr. Long Tian Si said that while difficulties do exist, he is gratified that the Ministry of Posts and Telecommunications has been tremendously supportive and that the Shanghai 1240 Bureau of Engineering and Construction has also given them concrete assistance, to both of which he expressed his gratitude. Finally he told me that he and his colleagues would like to

contribute to the economic development of Shanghai, the venue of the joint venture as well as China's largest city, thereby contributing to China's future.

The interview was over. The primary economic result of this S1240 project, which strikes me as one oriented towards the importation of technology, will be to supply the nation's telecommunications network with equipment at lower than international prices. During the 15 years when the contract remains effective, it will help China to economize in its investment in the infrastructural development of its telecommunications system and will also provide us with tax advantages. Localities across the nation reportedly will spend about \$177 million in the next few years to finance the importation of digital telephone exchange equipment, whereas it took only 160 million yuan to build the Shanghai Bell Telephone Co with its annual output of 300,000-line telephone exchange equipment. We can thus see that this joint venture is a success story in the introduction of advanced technology.

12581

CSO: 4006/524

FOREIGN TRADE AND INVESTMENT

REBUTTAL TO SAYING: CHINA USED AS CAPITALIST DUMPING GROUND

Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 5, 5 May 85 p 25

["Problem Solving" Column by Tan Si [6223 1835]: "Is Bringing in Foreign Capital Tantamount to 'Giving Capitalism a Shot in the Arm'?"]

[Text] Since implementation of the policy of opening to the outside world, China's economy has rapidly abandoned the practice of closing the country to international intercourse. A change that attracts worldwide attention has taken place. However, at the same time this has provoked some comments, one of which is the remark by some people that "importing foreign capital means giving capitalism a shot in the arm."

The logic of these people is: Modern capitalism is unable to free itself of periodic economic crises. Its decadent and moribund nature has become more obvious than ever. Hence, like a patient suffering from pernicious anemia, it is rapidly declining and is in a precarious state. To import foreign capital at this point is tantamount to making things convenient for capitalism, which is desperately seeking a way out for its surplus capital. Objectively, this is like giving capitalism a helping hand and alleviating the capitalist economic crisis.

With slight additional analysis, it is not difficult to discover that the above statement is untenable. This is because, first of all, it is logically incorrect. The root of the periodic economic crisis of capitalism is the intrinsic basic contradiction of capitalism, which is a contradiction between the socialization of production and the capitalist possession of the results of production. On the one hand, this contradiction frequently undermines the various proportionate relationships between the two major categories of social production, resulting in serious proportionate disharmony and the formation of surplus in production. On the other hand, it reduces the ability of the laboring people in making payments, thereby resulting in the failure to sell a large quantity of commodities. When these two situations develop to a certain degree, an economic crisis will occur which will force the capitalists to reduce production in order to arbitrarily bring about a gradual balancing of the various proportionate relationships between the two major categories. This shows that the outbreak and resolution of a capitalist economic crisis have their own regularity and are not related to whether or not we implement the open door policy.

Second, this statement shows a lack of the most fundamental understanding of our open door policy. Presently, we are implementing this policy as a socialist country in accordance with the principle of benefiting our own economic development. This is completely different from the "open door" policy which the corrupt government of the colonialist and semi-colonialist old China implemented under the threat of the guns of the imperialist powers. That "open door policy" surrendered a country's sovereign rights under humiliating terms and allowed foreign capital to indiscriminately exploit the Chinese people and frantically plunder China's abundant resources. The present open door policy is implemented by the country in accordance with its needs to import foreign capital and import science and technology and to make them serve socialist economic construction. Thus, what we import, how much we import and when we import, as well as how many cities we open up and what the scope and extent of opening to the outside world are, are all determined by ourselves. Both subjectively and objectively, the issue of lending a helping hand to capitalism does not exist.

Third, this statement is exaggerated, substituting the part for the whole. In implementing the open door policy and importing foreign capital, we will certainly enable the foreign capitalists to reap certain benefits. Otherwise, they will not come to us. However, in view of the reality of this open door policy in the last 2 years, the foreign capital which we have imported constitutes only a fraction of the gross amount of the surplus capital of capitalism. It also constitutes only an extremely small percentage of the existing gross amount of funds in our country. Thus we cannot say that we have given capitalism a helping hand. Also, we cannot possibly have allowed foreign capital to influence our socialist economic development.

The charge that importing foreign capital is tantamount to giving capitalism a shot in the arm is in essence a "leftist" approach to the issue, which regards socialism and capitalism as totally unrelated, as incompatible as fire and water, and which refuses to benefit capitalism even if it means benefiting ourselves even more. This "leftist" viewpoint is absurd. It not only violates the dialectical principle of the universal relatedness of all things and the unity of opposites, but also fails to conform to the reality of historical development. Socialism emerges from the womb of capitalism. Socialism cannot survive and develop independent of the outside world. This has been proven by history. Lenin once astutely pointed out: "Without forming ties with the world, a socialist republic cannot survive. Under the present circumstance, we should link our own survival with capitalist relations."

The world today is an open world. With the development of the productive forces and the progress of science and technology, international economic ties are becoming more intimate day by day. The approach to strengthening and promoting the economic construction of one's own country through opening to the outside world has become the trend of world economic development. If we do not conform to this trend but carry out construction in a closed door manner as in the past by relying on ourselves and starting from scratch in everything, then we will only be able to trail behind others and will never



catch up. Only by implementing the policy of opening to the outside world can we rapidly reduce the gap between us and the advanced capitalist countries. This is not giving capitalism a shot in the arm at all, but is a necessary demand of socialist economic development.

9335

CSO: 4006/667

FOREIGN TRADE AND INVESTMENT

OFFICIAL ON CONTROLS ON HONG KONG BOUND GOODS

HK121239 Beijing GUOJI SHANGBAO in Chinese No 25, 27 Jun 85 p 1

[Report by reporter Wang Yixia [3769 0181 1115]: "At a Work Conference Wang Pinqing, Representative of the Minister of Foreign Economic Relations and Trade Said That the Situation of Exporting Goods to Hong Kong Through Unofficial Trade Channels Has Changed Greatly; It Is Still Necessary to Strictly Implement the Various Management Measures"]

[Text] "Since the establishment of the quota and export license administrative system on the exports of live and frozen commodities and with the close coordination and vigorous support of the custom houses, various provinces, municipalities, and autonomous regions and the various departments, the situation of exporting goods to Hong Kong through unofficial trade channels has changed greatly and supplies of these commodities through normal trade channel have greatly increased. However, there are still some problems." This is what Wang Pinqing, representative of the minister of Foreign Economic Relations and Trade, recently said at a work conference of the Ministry of Foreign Economic Relations and Trade.

Wang Pinqing said that the quota and export license administrative measure have only just been adopted for a long time, but initial achievements have already been scored. Hong Kong agents are relatively satisfied with this measure and their confidence in dealing in Chinese goods has been strengthened. This has proved that it is imperative to strengthen administration and that the establishment of the quota and license administration system over the major live and frozen commodities that are supplied to Hong Kong and Macao is an effective method to ensure stable supplies, increasing sales, selling goods at satisfactory prices, and earning more foreign exchange. At the same time, we should also see that we have only scored initial achievements in implementing the quota and export license system and at present there are still some problems, namely, some "parallel goods" have continued to be supplied in large amounts in the Hong Kong market. The major causes for these problems are: 1) Export without licenses; 2) exports of goods in excess of the amounts allowed by the licenses; 3) the practice of turning export licenses into valuable securities and transferring them for money; 4) the practice of reducing the export price below the lowest limit allowed or giving Hong Kong businessmen secret rebates; 5) the practice of understating the value of goods when going through customs.

Wang Pingqing said that while enlivening the economy and opening up to the outside world, we must strengthen our administration. The implementation of the quota and license system covering exports of live and frozen commodities to Hong Kong and Macao is by no means merely a measure of restriction and is aimed at enabling the timely and balanced supply of appropriate quantities of live and frozen commodities of fine quality to the Hong Kong and Macao markets.

In issuing export quotas in the future we should start from the principle of using fine-quality commodities to occupy and maintain our market share in the Hong Kong and Macao markets. We should allow larger quotas for fine types of goods that are of good quality and that can earn much foreign exchange and allow small or no quotas for commodities that are of poor quality and that earn little foreign exchange. By so doing, we will urge the various ports and supply departments to improve their technology, strengthen their management and raise the [word indistinct] and improve the quality of their commodities in order to adapt to the high consumption level of the Hong Kong and Macao markets.

Wang Pingqing concluded that the license system ensured the realization of control by quotas; therefore we should issue licenses in strict accordance with the quotas. All the organizations that issue the licenses should earnestly play their functional role. It is strictly forbidden to issue licenses without quotas or in excess of the quotas, to buy or sell licenses, to overstate or understate the quantities of goods or to give false descriptions of the goods when going through the customs, or to lie about the prices or give secret rebates and thus violate the rule concerning price floors.

The commercial inspection departments should impose strict control, the custom houses should strengthen their supervision, and the banks should also give play to their supervisory role. The relevant functional bureaus and offices of the Ministry of Foreign Economic Relations and Trade should formulate a set of regulations and concrete measures, conduct, together with other relevant units, periodic inspections on the implementation of the quota and license system, promptly obtain first-hand data, bravely exercise their administration, apply administrative and economic means to support and encourage the ports and units that exercise their administration in accordance with the quota and license system, and severely punish the areas and units that undermine the administration of the quota and license system. What should be particularly pointed out is that selling export licenses is a criminal activity. We should earnestly ensure the implementation of the quota and license administration system.

CSO: 4006/805

FOREIGN TRADE AND INVESTMENT

JOINT BREWERY VENTURE CONTRACT SIGNED WITH FRENCH

OW121532 Beijing XINHUA in English 1518 GMT 12 Jul 85

[Text] Beijing, 12 Jul (XINHUA)--A contract was signed here tonight on a Sino-French brewing joint venture costing 300 million French francs (about 96 million yuan).

The deal sets up the Sino-French drink company, which will build a brewery and malthouse at Ningbo, Zhejiang Province.

The company is half owned by the Chinese partners--CITIC (China International Trust and Investment Corporation), ZITIC (Zhejiang International Trust and Investment Corporation), the Ningbo Light Industry Corporation and ZITIC's Ningbo branch.

The French partners are the BSN group, Banque Paribas, Malteries Franco-Belges and Kronenbourg.

Building work will start on 1 October this year, and is scheduled to be completed by the end of 1987. The plant will produce 50 million litres of beer and 20,000 tons of malt a year initially.

Under the contract, the beer will be mainly for the domestic market, and the malthouse will supply the brewery and the international market.

This joint venture brings the total number of new brewing schemes to 72 this year, involving a combined investment of more than 2.878 billion yuan. The completion of these schemes will add more than 2.5 billion litres of beer a year to the Chinese market.

It is forecast that by the middle of the seventh Five-Year Plan (1986-1990) period, China will have an annual production capacity of more than five billion litres of beer, compared with 2.27 billion litres last year.

Attending tonight's signing ceremony were CITIC Chairman Rong Yiren and Minister of Light Industry Yang Bo.

CSO: 4020/298

FOREIGN TRADE AND INVESTMENT

PRC SUSPENDS PLANS TO BUY FOREIGN TV SATELLITES

HK151248 Hong Kong AFP in English 1030 GMT 15 Jul 85

[Text] Beijing, 15 Jul (AFP)--China has suspended plans to buy two foreign television satellites for \$200-300 million for several months, informed sources said here today.

The project, for which three Western companies are competing, was the biggest yet frozen by China as Beijing faces a steep drop in its foreign exchange reserves, which has also caused several other projects to be shelved in recent months.

Disputes between government bodies also contributed to the suspension of plans to buy the satellites, which would provide improved television reception across China, the sources said.

Matra of France, Messerschmidt-Boelckow-Bloehm of West Germany and RCA of the United States are competing for the tender, whose suspension was decided at top level, the sources said. The deadline of the tender, launched in autumn 1984, was today.

The sources said the Ministry of Radio and Television, which was behind the tender, had had to hand control of the project to the Commission of Science and Technology. The commission would consider the project afresh and get in touch with the foreign companies in a few months.

The decision followed the suspension or cancellation by China of many contracts with foreign companies in recent months because of dwindling foreign exchange reserves, Western bankers said.

People's Bank of China statistics show that China's foreign currency reserves dropped 30 percent in 6 months, from 16.3 billion dollars at the start of the last quarter of last year to 11.3 billion on 1 March this year.

Foreign bankers here said the reserves had slumped again to \$7.5 billion at the end of last month. They said that sum was a critical level, enough for some 4 months of imports, and that the Bank of China, which handles international financial dealings, was trying to stem the loss at all costs.

Many of the affected projects are in the southern province of Guangdong where many deals with companies from neighbouring Hong Kong are made.

CSO: 4020/298

## FOREIGN TRADE AND INVESTMENT

### FOREIGN FUNDS IMPROVE TIANJIN SERVICE FACILITIES

OW162006 Beijing XINHUA in English 1515 GMT 16 Jul 85

[Text] Tianjin, 16 Jul (XINHUA)--An 80-year-old hotel, Astor Hotel, in this north China port city has been renovated by a Tianjin-Hong Kong joint venture and opened to foreign guests Monday, according to local officials.

To meet the needs of a growing number of foreign businessmen and tourists, Tianjin and Hong Kong jointly invested U.S.\$10 million in expanding and transforming the hotel, including reinforcing and repairing existing buildings, streamlining service facilities and building a new seven-storey main building and a three-storey lobby. All the rooms have air-conditioning, closed-circuit television, telephone, smoke warning system and automatic fire-fighting equipment.

Tang Jiaheng, an official of the Tianjin Commission of Foreign Economic Relations and Trade, said that using foreign funds to improve and construct hotels is an important measure to solve the fund shortage and alleviate the shortage of top-class hotels.

Tianjin has signed agreements with overseas investors for 13 hotel schemes, involving U.S.\$100 million in foreign funds.

Investors are from the United States, France, Britain, Japan, Singapore and Hong Kong.

The city has also set up nine joint-venture taxi enterprises with about 1,000 cars.

Tianjin has also used U.S.\$7 million in foreign funds for service ventures such as restaurants, color photo services, golf courses, etc.

It is also constructing an international commercial center to market imported goods and goods manufactured by joint ventures.

Tianjin, one of the 14 coastal cities further opened to foreign investment and trade in 1984, has economic ties with 160 countries and regions. Foreign businessmen and tourists flock to the city each year.

CSO: 4020/298

FOREIGN TRADE AND INVESTMENT

SHENZHEN ECONOMIC ZONE DEVELOPMENT FIGURES

OW191917 Beijing XINHUA in English 1602 GMT 19 Jul 85

[Text] Guangzhou, 19 Jul (XINHUA)--The Shenzhen Special Economic Zone (SEZ) completed construction of 66 new factories in the first half of this year, the city industrial development committee reported recently.

Industrial output value of the SEZ reached 1,299 billion yuan in the first 6 months of this year, a 92.2 percent growth over the corresponding period of last year, according to the committee.

Committee officials estimate that the SEZ has to build another 20 standard factory buildings each with a floor space of 10,000 square meters to meet the needs of investors.

All of the standard factory buildings already completed in the zone have been sold, local officials said.

Although the zone signed less agreements for big projects and the import of technology with overseas investors in the first 6 months of this year than in the same period last year, the capital involved came to U.S.\$134 million, a 75 percent increase.

Production of joint ventures with Chinese and foreign investment, and enterprises with only foreign capital showed growth of 2.1 times, up to 730 million yuan.

Joint ventures and enterprises with sole foreign capital account for 56 percent of Shenzhen's industry in terms of output value. Also, their profits have risen considerably, according to the development committee.

The SEZ has developed 140 new products to meet the needs of the international market. Many enterprises, with more export goods, have balanced income and spendings of foreign exchange, with a small surplus.

Shenzhen exported goods worth U.S.\$176 million in the first 5 months of this year, 3.1 times that of the corresponding period last year, local officials said.

Other indicators in the first half of this year also show that economic development in Shenzhen is rapid and harmonious. They include:

--375 million yuan of financial revenues--97.6 percent growth over the same period last year;

--capital construction completed worth 1.05 billion--double;

--1.05 billion yuan of social retail sales--a 25.5 percent increase.

CSO: 4020/298



FOREIGN TRADE AND INVESTMENT

INVESTMENT SOCIETY HOLDS SEMINAR FOR EXPERTS

OW191938 Beijing XINHUA in English 1806 GMT 19 Jul 85

[Text] Beijing, 19 Jul (XINHUA)--China should be good at learning from the experiences of foreign countries in project appraisal and feasibility studies, in its bid to improve the economic results of fixed-assets investment. This was the view of Chinese experts attending a seminar on fixed-assets investment, which closed today.

During the 5-day seminar sponsored by the newly-founded China Investment Society, over 200 experts and scholars from all over China discussed problems in fixed-assets investment, such as excessive scales, inflexible management and low economic results.

Improving the economic results is a key to a reasonable fixed-assets investment program. So project appraisal, feasibility studies, and examination and approval of the projects are of vital importance, the experts said. They urged that the sponsor of a project should be subject to both economic and legal liabilities if it fails.

They spoke highly of the State Council's decision to replace financial allocations with bank loans for capital construction within the state budget, beginning this year. This is making the construction units rely more on themselves and pay more attention to economic results.

The experts and scholars from financial and planning circles also pointed out that the structure of fixed-assets investment should be constantly adjusted so as to meet the challenge of the new world-wide technical revolution. They urged a halt to the practice of starting more and more new projects at the expense of key projects and the technical transformation of existing enterprises.

The China Investment Society, set up just before the seminar, is a non-governmental academic organization. It will coordinate the efforts of experts, researchers and scholars concerned to study fixed-assets investment in China.

CSO: 4020/300

FOREIGN TRADE AND INVESTMENT

SHENZHEN INVESTS WAREHOUSE DEVELOPMENT

HK200624 Beijing ZHONGGUO XINWEN SHE in Chinese 0900 GMT 19 Jul 85

["Shenzhen Invests 300 Million Yuan in the Development of a Warehouse Area"---ZHONGGUO XINWEN SHE headline]

[Text] Guangzhou, 19 Jul (ZHONGGUO XINWEN SHE)---Shenzhen is developing a large warehouse area on a broad strip of land at the northern end of Hongling road in the city proper. A hillside covering 0.8 square kilometer of land has been leveled; a road network for big container carriers has been formed; and construction of various warehouse facilities for both Chinese and foreign enterprises has gotten underway. The total investment is from 300 to 500 million yuan.

In an interview with reporters, Yuan Feng, responsible person of the Shenzhen's warehouse area development corporation, said that the export and foreign trade units of various provinces and municipalities stationed in Shenzhen will move here to carry out their business. At present, in addition to a number of local enterprises which have come here to talk about warehouse business, some Hong Kong and Japanese firms have also come here to talk about renting warehouses for bonded goods and factory buildings for processing and packing.

The responsible person said that Shenzhen port has the capacity of handling more than 1.1 million tons of import and export goods every year. However, the present warehouses are both in short supply and in confusion, causing a lot of difficulties. After the completion of the warehouse area, the situation will improve considerably and the volume of freight handled will also increase.

Yuan Feng said that designs for the construction of a special railway line in that warehouse area has been completed and construction of the railway will begin this year. Construction in the warehouse area will include cold storage plants, slaughterhouses, warehouses for both perishable goods and dried foods and nuts, open-air depots, processing workshops, residential units, offices, and other necessary facilities. Projects will be commissioned as soon as they are finished while construction of other projects is still under way. A method of "rolling snowballs" will be used to accumulate funds.

CSO: 4006/805

FOREIGN TRADE AND INVESTMENT

BIDS FOR YUNNAN PROVINCE POWER PROJECT OPENS

OW191614 Beijing XINHUA in English 1537 GMT 19 Jul 85

[Text] Beijing, 19 Jul (XINHUA)--The second round of bidding for the supply of engineering machinery for the Lubuge hydroelectric power station in Yunnan Province, southwest China, opened today.

Nine bids were received. Representatives of manufacturing firms from Britain, Italy, Japan, Sweden, the United States, China and Hong Kong attended the opening ceremony, which was presided over by the International Tendering Company of the China National Technical Import Corporation.

The project, financed by a World Bank loan of more than U.S.\$145 million, is one of the state key construction projects during the seventh Five-Year Plan (1986-90) period.

The first bids, for purchasing engineering machinery and rolled steel, were held last January. This round is mainly for the purchase of drilling machines and 50 dump trucks.

Evaluation of the bids will start soon, and the contracts are expected to be awarded in mid-August, according to an official from the tendering company.

The power station is more than 300 km to the east of Kunming, capital of the province, and will generate 2.7 billion kWh a year upon its completion by 1990.

CSO: 4020/300

FOREIGN TRADE AND INVESTMENT

LI PENG ON SINO-CANADIAN ECONOMIC TIES

OW202116 Beijing XINHUA Domestic Service in Chinese 0805 GMT 20 Jul 85

[Report by reporters Zhao Zhongqiang and Mao Yuanchun]

[Text] Toronto, 19 Jul (XINHUA)--Vice Premier of the State Council Li Peng, who has been accompanying President Li Xiannian on a visit to Canada, held a round-table meeting here today with personages of the business community in Canada's Ontario Province. He said: The political relations between China and Canada are very good and so are the bilateral economic relations. China sincerely hopes to continuously expand economic, technical, and trade relations with Canada.

Li Peng continued: A considerable huge deficit in Canada's favor has existed in Sino-Canadian bilateral trade. If such a situation continues, it is impossible to further develop the bilateral trade. You should not only sell goods just as we cannot only import goods. We must also export goods to pay for imports. Of course, it is impossible to achieve a totally balanced trade. However, the huge deficit to China's disadvantage must be reduced. Answering questions from meeting participants, Li Peng also discussed the possibilities for Canadian enterprises to participate in building a large hydroelectric power plant at the three gorges of Chang Jiang, China's purchase of equipment for four thermal power plants, and cooperation in the field of aircraft industry.

He said that the Canadian airplane he took yesterday is very good in quality. It flies smoothly, but its one shortcoming is that the price is too high.

In a written statement circulated at the meeting, Li Peng explained the immediate and long-range goals of China's economic development as well as basic policies for achieving these goals.

He said: In order to speed up the development of social productive forces, China has formulated two fundamental policies of reforming the domestic economy and opening to the outside world. It is an objective demand of China's modernization drive to open the country to the outside world and expand economic and technological exchange with foreign countries. We are deeply aware that by closing the country to the outside world, we will not succeed in accomplishing the modernization drive.

He said: Since 1980 the Chinese areas that are open to the outside world have continuously expanded with a total population of over 100 million now. In opening China to the outside world, we have, in addition to actively expanding foreign trade, given preferential treatment to inducing capital, technology, equipment, and talented people in order to strive to create a good investment environment to ensure foreign cooperators' legitimate interests. The policy of opening the country to the outside world, although implemented for only a short period of time, has already achieved marked results. China's import-export trade has increased at an annual rate of 22.5 percent over the past 6 years. In 1984 there were already over 900 Sino-foreign joint ventures.

He said: The policies of reforming the domestic economy and opening to the outside world have given impetus to the sustained, steady, and coordinated development of China's economy and brought about an unprecedented good economic situation. Our total industrial and agricultural output value has increased at an annual rate of 8.2 percent for 6 consecutive years, exceeding 1 billion yuan in 1984. There are bound to be many difficulties and problems to be solved in carrying out large-scale reconstruction in a populous country like China. But we are confident that the road we take is correct. Policies of this kind are of great vitality and irreversible.

Li Peng said: It has been 15 years since the establishment of diplomatic relations between China and Canada. The two countries have always maintained good political relations; a big headway has been made in bilateral trade; and a good beginning has been made in economic and technological cooperation. China attaches great importance to Sino-Canadian relations. We are ready to build up and develop long-term and stable friendly relations and cooperation with Canada. China's door is always open to Canadian friends. Canada is an economically developed country with specialized and advanced technologies in energy, communications, and transportation. We also need its technologies and equipment for small and medium-sized enterprises to carry out technical transformation of our existing enterprises. Our needs and your capabilities and specialties coincide in many areas. There are great potentials for further cooperation between our two countries in economy, trade, science and technology, training of skilled personnel, and operations and management.

He said: Of course, there are a number of concrete problems that need to be solved in order to speed up the development of Sino-Canadian economic and trade relations.

He added: China's open policy is oriented to the whole world. Fierce competition exists in the Chinese market as it does in the international market. We hope that Canadian enterprises will improve their competitiveness in price, quality, service, and, in particular, transfer of technology.

The meeting was presided over by Ontario Provincial Minister of Industry, Trade, and Technology O'Neill.

CSO: 4006/805

FOREIGN TRADE AND INVESTMENT

MORE AUTONOMY HELPS IMPROVE HOTEL SERVICE

OW201637 Beijing XINHUA in English 1606 GMT 20 Jul 85

[Text] Beijing, 20 Jul (XINHUA)--Another 50 Chinese hotels receiving foreign guests will be granted the right to hire and fire workers, following a State Council decision allowing them to follow the suit of the Jianguo Hotel, a Beijing-Hong Kong joint venture.

The Jianguo Hotel, jointly built by the Beijing branch of the China International Travel Service and Zhong Mei Hotel Development Venture, Ltd. of Hong Kong, and managed by the Peninsula Group of Hong Kong, is noted for its good service and management.

A year ago, a number of local hotels adopted the responsibility system, and the right to promote and punish workers and grant higher bonuses. As a result, these hotels, including the Diaoyutai State Guest House, the Beijing Hotel, and the Baiyun Hotel in Guangzhou, scored an average of 65 percent increase in income, and about 80 percent in profit by the end of 1984.

"We hope that by learning from the Jianguo, more and more Chinese hotels will reach international standards," according to Wang Yueyi, deputy director general of the National Tourism Administration.

CSO: 4020/300

## FOREIGN TRADE AND INVESTMENT

### WAYS TO ATTRACT OVERSEAS CHINESE, HONG KONG CAPITAL

Guangzhou GUANGZHOU YANJIU [RESEARCH ON GUANGZHOU] in Chinese No 2, Mar-Apr 85 pp 31-33

[Article by Lin Bin [2651 3453] of the Guangzhou Municipal Foreign Economic Relations and Trade Commission: "The Composition of Hong Kong Capital and the Introduction and Utilization of Overseas Chinese and Hong Kong Capital"]

[Text] The development of Hong Kong's economy began in the middle 1950's after the war. The growth rate every year was above 10 percent and per-capita annual national income was \$4,500. Hong Kong was one of the regions in the third world with the fastest economic growth, second in Asia only to Japan and Singapore. Hong Kong's economy was primarily composed of the six major undertakings of industry, trade, banking, real estate and construction, tourism, and communications and transport. The composition of capital can be divided into the following five types.

1. A conglomeration of British capital. British capital is all private capital without British or Hong Kong British authorities as shareholders. With the most abundant resources, this conglomeration can be subdivided into two types. One type had already established a powerful basis in Hong Kong prior to 1949 and has involved the transfer of capital from the mainland to Hong Kong since China's liberation. This includes the Hong Kong and Shanghai Banking Corp, Jardine-Matheson Co, the Hutchison Co and the Swire Pacific Conglomerate (?) [taigu jituan 1132 0657 7162 0957]. The second type includes Hong Hong Land, Charter Bank and the Whampoa Dockyard, which involve the transfer of part of the capital that was originally in the Far East region for the expansion of business in Hong Kong.

2. A conglomeration of Chinese capital. This includes the 13 banks with Chinese capital headed by the Bank of China. The Hong Kong branches of these banks are only second in strength to the Hong Kong and Shanghai Banking Corp. In recent years, the conglomeration of Chinese capital has actively expanded its capital and developed its business. It has enlarged many trading companies, investment companies, and Chinese products companies. The breadth of their business scope has involved such undertakings as transportation, cargo liners, tourism, real estate, refrigeration, manufacturing industry, construction and building materials industry, petroleum and publications. This

has greatly strengthened the economic strength of the Chinese capital, supported the prosperity of Hong Kong, and helped stabilize public sentiment.

3. A conglomeration of Hong Kong Chinese capital. This is another important component of Hong Kong's economic strength after the conglomeration of British capital. Some members of this conglomeration were already quite powerful in mainland China before liberation. Other members were old local economic powers in Hong Kong. Still others were landlords in the New Territories who became rich through real estate business. These people are currently making investments in the New Territories, and their influence on the development of its economy is increasing daily.

4. A conglomeration of Southeast Asian Overseas Chinese capital. From the late 1950's on, especially after the large-scale exclusion of Chinese in such countries as Indonesia and Vietnam, a large amount of Southeast Asian overseas Chinese capital flowed into Hong Kong, and made up a conglomeration of overseas Chinese capital in Hong Kong.

5. A conglomeration of foreign capital. The scope of investment by foreign capital in Hong Kong is rather broad, involving primarily banking, commerce and industry. In 1983, there was an increase of 10 percent of companies set up by foreign businessmen in Hong Kong, increasing the total from 1,699 to 1,872 companies. These companies primarily came from the United States and Japan. According to relevant statistics: The United States has already set up over 700 branch companies in Hong Kong, some of which are regional headquarters of the U.S. companies. It is estimated that U.S. investment in Hong Kong totals \$3.3 billion. The second is Japan. Currently, there are 15 banks with Japanese capital in Hong Kong. Together with investment by other undertakings, it is estimated that Japanese investment in Hong Kong totals \$2.3 billion, 41 percent higher than the preceding year. The announcement of the joint declaration on the Hong Kong issue between China and Britain has greatly strengthened the confidence of investment of foreign capital in Hong Kong. Investment has shown a continuous trend upward.

In terms of the composition of funds, Hong Kong has abundant funds. However, funds that are held up in Hong Kong and are seeking outlet are also relatively large. By the end of September 1983 these funds totaled \$22 billion, and bank deposits totaled \$36 billion. Besides returning to circulation in Hong Kong, a large amount of these funds are put into circulation overseas. By the end of November 1983, the overseas loans which the Hong Kong banking organizations made totaled roughly \$16 billion. Comparatively speaking, the actual amount of investment made in Guangzhou Municipality was extremely small. According to an investigation, the total assets of the overseas Chinese in Southeast Asia totaled \$50 billion. The gross amount of investment made locally totaled \$21.2 billion, while the investment made in Guangzhou was very small. Many issues on how to further attract overseas Chinese capital and Hong Kong and Macao capital deserve our study. Here, I will offer a few superficial suggestions:

1. In our study, we should put the development of overseas Chinese capital in a strategic position. There are over 400,000 overseas Chinese from the Guangzhou region who are distributed throughout the world. They have all



along embraced the tradition of patriotism and love for their homeland. However, the descendants of the overseas Chinese, particularly the third and fourth generations, are influenced by the western lifestyle. They may be married to foreigners. They may not have the opportunity to receive the culture and education of the motherland. They may have been separated from the motherland for a long period of time. The sense of homeland has become increasingly dim for many of them. After several decades, this sense of the motherland and the homeland will disappear in their minds. In studying the development of overseas Chinese funds, we must use favorable terms to attract these funds. In addition, we can simultaneously make investments overseas, link up with the overseas Chinese funds and develop our international market, all of which embody profound strategic significance. Once, a letter from an overseas Chinese in the Middle East indicated that the Qingnian Brand Fountain Pen produced by the Guangzhou Fountain Pen Factory was extremely popular on the Middle East market, and asked to build a factory under joint investment between him and us in order to expand the Middle East market for the Qingnian Brand fountain pen. The implementation of this proposal not only could develop the international market still further, but could also strengthen the ties between the overseas Chinese and the motherland. This has long-term strategic significance.

2. Conscientiously and properly carry out feasibility studies on the investment projects in order to guarantee smooth promotion of the projects and profits for both parties. The premise for attracting overseas Chinese and Hong Kong and Macao investors is that there are profits to be made. Of course, there may be risks in investment. However, we should reduce the risks and strive to improve the success rate, and build the investment projects on the basis of scientific feasibility. For instance, the Guangzhou Baiyun Compact Cars Rental Co and the Hong Kong Yangcheng Taxi Service Co, Ltd, jointly operated a compact cars company. Hong Kong invested HK\$3.3 million in buying abroad 70 50-ling [6875] Steed(?) [junma 7486 7456] brand gasoline compact cars and 31 50-ling diesel station wagons with wireless intercoms, meters and air conditioning. Guangzhou provided parking lots, offices, drivers, technical workers, and management personnel, and assumed full management responsibilities, with repayment of principal with interest in 2 years at a monthly interest rate of 12 percent. The two shared the profits, 35 percent for Hong Kong and 65 percent for us. Operation began in November 1979. The contract ended in November 1981. In the 2 years, the gross income from the operation was 6,474,000 yuan. Of this, the state income from business tax, income tax and road maintenance fees totaled 1,777,000 yuan. The income of the staff members and workers totaled 790,000 yuan. Collective accumulation for the company totaled 620,000 yuan. From the above three items, Guangzhou reaped a total profit of 3,187,000 yuan. Hong Kong took in 1,487,000 yuan, of which 365,000 yuan were net profits. After the 2-year term of contract for this project ended, all the cars came under the possession of the Guangzhou party for continuous operation. This project succeeded because in-depth feasibility studies had been conducted prior to the joint operation.

3. Bring into full play the role of in-service cadres at home who are relatives of the overseas Chinese and compatriots from Hong Kong and Macao. There are over 400,000 overseas Chinese and over 600,000 compatriots from Hong Kong and Macao of Cantonese origin, whose relatives and friends are working in

the various trades and undertakings all over Guangzhou. Some of the in-service cadres themselves are returned overseas Chinese and others are relatives of overseas Chinese. Those cadres who have relatives and friends overseas or in Hong Kong and Macao with a sound economic basis and the ability to carry out economic activities can employ such means as leave without pay or go with their families to carry out economic activities abroad or in Hong Kong and Macao, including organizing companies or acting as go-betweens in bringing about investments in China. Such means as leave without pay can also be employed to utilize foreign capital to set up companies at home, carry out economic activities and work hard for Guangzhou's modernization.

4. Perfect economic legislation and offer reliable guarantees for overseas Chinese capital and Hong Kong capital. Currently, many overseas Chinese and compatriots from Hong Kong and Macao are embracing a wait-and-see attitude toward making investments in Guangzhou. There are many reasons for this, a rather important one being infringements on their interests in the course of previous political campaigns. They are worried that they cannot guarantee their capital and cannot transmit abroad the profits they make. For this reason, we should accelerate the perfection of various items of economic legislation in external relations, such as corporate law and other laws and regulations such as contract regulations involving foreign organizations. In addition, the cadres of the organization involving foreign nationals and in foreign economic relations should firmly establish the concept of a judicial system, and abide by and execute the law. Legal personnel must participate in discussions, signing contracts and handling disputes involving foreign countries. The signatories of contracts with foreign countries and the person who approves the contract should shoulder corresponding economic and legal responsibilities. We should establish a new image of respect for and observation of the law.

5. Macroeconomically, maintain a balance of foreign exchange receipt and payment and open up the domestic market in a planned and purposeful manner. A report in the "Frankfurter" of West Germany pointed out: "The goal pursued by China and their foreign counterparts in respect to the establishment of joint ventures is for the most part mutually contradictory. What the People's Republic wants first is to obtain foreign exchange. What its foreign counterparts want first, however, is to develop the China market." We are a socialist country and should have a plan and purpose in opening up our domestic market. In 1983, Document No 45 and the "Regulations for Implementation" of the State Council have relaxed on the policy of opening up the domestic market. However, opening up the market is fixed within the realm of the "joint ventures" and the products which are "urgently needed" at home or which "need to be imported." In fact, the scope of joint ventures can be further relaxed. For instance, it can include projects at home which require the import of advanced technological facilities; projects which can strengthen the competitive ability of the export products, which are beneficial to lowering the cost for exchange, and which can increase foreign trade exports, as well as projects which play a relatively major role in improving economic results. On the question of foreign exchange balance, after we have further opened up the domestic market, we do not have to follow our present method of allowing enterprises that utilize foreign capital to attain balance of receipt

and payment in foreign exchange on their own. More importantly, we should adopt the method of comprehensive compensation to solve the problem of foreign exchange balance. This will be more favorable to absorbing overseas Chinese capital and Hong Kong and Macao capital for our own use.

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CSO: 4006/644

FOREIGN TRADE AND INVESTMENT

BRIEFS

BARTER AGREEMENT WITH POLAND--Warsaw, 20 Jul (AFP)--Poland and China today signed a \$9.2 million barter agreement under which Peking is to supply Warsaw with tea and cotton in exchange for Polish vehicles, the official Polish news agency PAP reported. Poland will supply China with 1,500 Polonez brand cars, fitted with a Fiat-made engine and a Polish body, as well as with buses, trucks and vehicles used for construction work, PAP said. It is the second trade contract since May, when Chinese Vice-Premier Li Peng signed a long-term agreement here to triple annual exchanges in 1985. In 1984 Sino-Polish exchanges were estimated at \$200 million. Today Chinese Agriculture Minister He Kang and his Polish counterpart Stanislaw Zieba signed a cooperation protocol here to build joint projects in the areas of fertilizer production, stock-farming and bee-rearing. The agreements come at a time when Peking's relations with Moscow are improving and China is reaching out to East-bloc markets, observers noted. [Text] [Paris AFP in English 2014 GMT 20 Jul 85]

BREWERY TECHNOLOGY ACCORD--Beijing will import brewery technology and equipment from Belgium to boost beer production. Recently the Beijing Municipal Foreign Trade Company and Belgium's (Unibras) Company signed a contract on importing the latter's brewery technology and equipment. A set of saccharification and fermentation technology and equipment will be installed in Beijing's (Wuxing) Brewery. According to the contract, the equipment, to be installed within 19 months, can greatly increase the brewery's production. [Text] [Beijing Domestic Service in Mandarin 1100 GMT 18 Jul 85]

CSO: 4006/805

## SPECIAL ECONOMIC ZONES

### TAX POLICY, STRUCTURE FOR XIAMEN DISCUSSED

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 4, 5 Apr 85 pp 38-41

[Article by Geng Jianhua [5105 1696 5478]: "Xiamen Special Economic Zone Should Adopt a Low-Tax Policy"]

[Text] The decision by the CPC Central Committee to adopt certain policies to make Xiamen a "free port" has marked a new stage in its development. The Central Committee envisions the Xiamen Special Economic Zone [SEZ] to be even more open than other SEZ's so as to fully harness its seaport advantages. A multifunctional modern international port characterized by free trade, fuelled by international finance and based on advanced technology and modern industries--such is the strategic goal of the Xiamen SEZ. And a correct tax policy and structure are essential to attaining this goal. It is amid intense competition that we set up the Xiamen SEZ: Indonesia, Malaysia, Singapore, Philippines, Thailand, South Korea, Brazil, Mexico and our own Taiwan Province and Hong Kong are all into the business of establishing economic zones offering free trade and a full array of tax preferences and tax breaks, including tax exemption, in order to attract foreign investors, technology and know-how. In general, all things being equal, international capital goes where there are low and few taxes. In drawing up Xiamen SEZ's tax policy, we must be driven by a sense of competition and a sense of urgency and must think strategically by telling ourselves that "we will more than offset every tax concession we make by attracting even more foreign economic resources to come our way."

In view of the above, the guiding ideology behind the zone's tax policy and tax structure should be one in favor of few taxes, low tax rates, tax breaks and simple procedures. Below are some preliminary ideas:

#### A. Reduce or Waive Import and Export Tariffs

Since the Xiamen SEZ is to carry out certain "free port" policies, it must reduce or waive import and export tariffs, a common practice among SEZ's around the world. Here is how it is usually done: 1) Exempt from import duty machinery, equipment, raw materials, spare parts, components and packaging materials imported by enterprises in the zone for production purposes. 2) As an incentive to export, abolish export tariffs across the board, with the exception of certain products whose export is restricted. The government

should refund taxes collected earlier when the merchandise leaves the factory.

3) No taxes should be imposed on imports as they are stored, disassembled, selected, sorted, graded, labelled, repackaged, processed, assembled or modified in the zone. Only goods destined for the interior market should be liable for customs duties. All other transit goods should be exempt from both import and export tariffs. In short, we must encourage Xiamen's export and entrepot trade through preferential taxation so that it will gradually mature into a trading and distributing center for Asia and the Pacific region.

#### B. Make Income Tax the Mainstay of Our Tax System

Income tax includes corporate income tax and personal income tax. It is a tax on the "income" of a taxpayer. The more you earn, you more you pay. If you earn nothing, you pay nothing. As a result, this tax is relatively acceptable to taxpayers. It is an established international practice for one individual who pays income tax in Country A to be exempt from a similar obligation in Country B, so given a reasonable income tax rate, double taxation can be avoided totally. Moreover, to encourage the export of capital, some capitalist nations follow a policy of "tax forgiveness." A preferential tax policy can only increase our attractiveness to the foreign businessman.

The Xiamen SEZ's income tax should be even more generous and easy on the taxpayer than its counterparts in other SEZ's. Some details:

1. Income tax should be set at 15 percent. There should be no additional local income taxes and no income tax on profits remitted outside of the country. Admittedly, the 15 percent rate is slightly lower than Hong Kong's present rate, but given our less competitive investment environment, only by making our rate lower can we increase our attractiveness and competitiveness. A single set of tax regulations should apply to all forms of enterprise in the zone, including joint ventures involving Chinese and foreign capital, cooperative enterprises with Chinese and foreign capital, wholly-owned foreign enterprises, state-run enterprises, collective enterprises, enterprises involving participation by an interior unit and individual industrial and commercial households. The same set of regulations should also apply to all sectors of the economy, including industry, commerce, trade, tourism, services, telecommunications, transportation, finance and banking, agriculture, forestry, animal husbandry and fishery. Such uniformity facilitates the competition among different kinds of enterprises under similar conditions and the development of economic cooperation with units in the interior, and simplifies administration and tax collection for the tax agency.

2. Accelerated depreciation should be taken into consideration when calculating income taxes. As a means of hastening capital return and equipment modernization, accelerated depreciation boosts and stabilizes an investor's confidence. In dealing with technology- and knowledge-intensive enterprises, in particular, we should be even more generous with the accelerated depreciation advantage we offer. For example, enterprises should be allowed to claim a 50 percent depreciation on machinery, equipment and instruments during the first year of use.

3. Expand the scope and amount of the preferential treatment for the reinvestment of profits. This will be an effective way to encourage an enterprise to expand by plowing its profits back into the business and help prevent an outflow of capital from the zone. According to China's "Income Tax Law for Joint Ventures Using Chinese and Foreign Capital," a cooperative enterprise or joint venture which reinvests its dividends does not have to pay taxes on 40 percent of the amount reinvested. No similar provision, however, is found in the "Income Tax Law for Foreign Enterprises." Nor has this tax preference been extended to the zone's state-run enterprises, collective enterprises or enterprises set up by an interior unit. I believe we should increase the ceiling from 40 percent to 80 percent, or even higher, and apply this preferential measure to all enterprises in the zone. This means that a foreign investor who reinvests his profits here will be able to recoup immediately 15 percent of what he has invested, obviously a fairly enticing prospect. As far as we are concerned, it will in effect mean an extra amount of foreign funds going into the zone. Apart from attracting more localities in the country to invest here, it will also be an incentive to interior enterprises to expand through the "snowballing" effect. For all these reasons, this reinvestment preference will have a significant effect on preventing capital outflow and accelerating our development.

4. Lengthen the time period during which an enterprise can carry over its losses from year to year. China's present "Income Tax Law for Joint Ventures Using Chinese and Foreign Capital" and "Income Tax Law for Foreign Enterprises" provide that should an enterprise incur a loss in a certain year, it may offset it by transferring an equivalent amount from its next year's earnings, and do so again next year if it runs into another loss. But the present laws allow the enterprise to carry over its losses from year to year for no more than 5 years. Now that we are implementing a number of "free port" policies, we should lengthen somewhat the carryover period to, say, 10 years. This will make the zone more attractive to foreign investors.

5. To attract foreign technology and funds, a more preferential policy should be adopted toward the dividends, interest, bonuses, special use fees and other earnings derived from equipment sales and leasing. We may consider, for example, scheduling a separate tax, lower than the income tax, for the various kinds of income mentioned above. A reasonable rate is 10 percent. We should also exempt from income tax interest derived from loans extended to the zone at very favorable terms, particularly special use fees on advanced technology and equipment and other income derived from its transfer and leasing.

6. Further reduce or waive personal income tax. Compared to the income taxes of most other countries and regions, China's existing income tax is low, has a limited applicability, offers numerous exemptions and is easy to calculate. But there is still the need for further reductions and exemptions if we are to accelerate the development of the Xiamen SEZ. For instance, we should reduce the income taxes payable by foreign experts and technicians on their wages, compensation and special use fees, or waive them altogether. To encourage foreign businessmen to settle in the SEZ, we may reduce or waive the income taxes payable by them on dividends, bonuses and interest derived from their investments in Xiamen. Even more important, tax exemption should be granted to interest on foreign-currency deposits in the zone. It is important that we

learn to think in macroeconomic terms and look at the broad picture here. Let's say a foreign merchant deposits \$10,000 in a bank in the zone at an annual interest rate of 15 percent. Under China's current Personal Income Tax Law, the tax due on the interest of the loan is \$300. But we may end up taxing the \$10,000 out of the zone into Hong Kong (where interest on foreign-currency deposits is tax-free,) in which case we will lose the use opportunity of \$10,000 as well as \$300 in tax. It is true that we also stand to lose \$300 in tax by making the interest tax-free, but we will still gain \$10,000 in foreign-currency deposit. This example shows why we should try to be more adept in using the strategy of "making tax concessions in order to position our ourselves more advantageously to capture more international economic resources."

C. Introduce a Value-Added Tax Across the Board Throughout the Zone To Replace the Traditional Product Tax and Business Tax.

The traditional product tax and business tax are taxes on income from the sale of a product (commodity). Their basic weaknesses are that they duplicate each other and militate against specialized cooperation, the expansion of commodity circulation and the development of export trade.

The value-added tax (VAT) is a tax based on the addition to the value of a product by the manufacturing and marketing process. Economically, it is adaptable to the needs of social mass production and conducive to specialized cooperation. Since we can accurately calculate the amount of drawbacks to be refunded, it facilitates export rebating and thereby strengthens our competitiveness in world markets and develops our export trade. Fiscally, it constitutes a reasonable tax burden and helps to stabilize public revenues. For all these reasons, the VAT is much valued by the international community and has become an international tax as more and more countries adopt it.

Given the Xiamen SEZ's stress on the development of knowledge- and technology-intensive industries, which are characterized by an elaborate division of labor, high degree of specialization and complex coordination, and the zone's export orientation, there is a compelling need to introduce a VAT across the board, on industry, commerce and all other sectors. Such a tax should also apply to all enterprises, irrespective of their nature. High-tax consumer goods in general international circulation, such as liquors, cigarettes and cosmetics, should of course continue to be subject to a product tax, whether they are China-made or imported.

Some people argue that there should be no indirect tax in a SEZ which is a component of price because "this kind of tax is usually passed onto the consumer as price and as such undercuts our international trade competitiveness. Moreover, it cannot be offset. To protect interior industries, we may impose a rather heavy tariff on merchandise when it is transported inland for sale." This proposal is not without merit and in fact points up a common practice among SEZ's and free trade areas around the world. But bearing in mind that 80 to 90 percent of the output of Xiamen's original industries is sold in the interior and that there are 300,000 consumers on this island, it is more prudent, in terms of distributing the tax burden more equitably between the zone and the interior and ensuring a continuing source



of revenue, to replace the traditional product and business taxes with a VAT, complete with a provision for export rebate, than to have no indirect tax at all.

D. Impose a Housing Tax, Similar to Hong Kong's Property Tax, on Housing, To Be Calculated in Accordance with the House Price or Its Annual Rent.

Housing tax is a vast untapped source of revenue in the SEZ. As the zone's economy develops and prospers, more and more houses and buildings have been constructed, and many more are scheduled to be built in the future. The housing tax should be set at a low rate, say, 1 percent of the house price or 10 percent of annual rent. To encourage new construction, the tax can be deferred for 5 years for a new building, and to encourage housing maintenance and rehabilitation, an annual depreciation should be allowed, if the building is taxed based on its price. Alternatively, we may allow the owner to deduct 20 percent from the annual rent for repair and maintenance in cases where the housing tax is based on the annual rent.

The land use fee is preferable to a land use tax. As it is easier to adjust a schedule of fees than a tax rate, the former is more flexible and versatile.

In designing a tax system for the SEZ, we should zero in on major products, industries and sectors which offer an abundant source of revenue, ignoring minor taxes dependent on a limited tax base and of marginal economic significance. Some cases fall into a grey zone where fees and taxes are hardly distinguishable from each other. In these cases, it is more advisable to charge a fee, examples being vehicle and boat license fees, business license fees and special consumption fees.

Some people worry that a low-tax policy in the SEZ will mean less government revenue, which will retard the zone's growth. Not so. Our aims in establishing an SEZ are to attract foreign capital and introduce advanced technology. The success of the zone, including its chances for an economic take-off, depend on whether or not we achieve these aims. And a low-tax policy is exactly geared towards attracting foreign funds and introducing advanced technology. Implemented correctly, a low-tax policy can attract a large amount of both, which will propel production and fuel economic prosperity in the zone, which, in turn, will generate more revenue. More revenue, of course, will mean stronger support for the zone's development. Such is the dialectical relationship between a low-tax policy and SEZ development. Shenzhen, for instance, has been very effective in attracting a large amount of Hong Kong and foreign capital and state-of-the-art technology because of its low-tax policy which offers more preferences than Hong Kong's. From 1979 to 1983, it concluded 2,513 contracts with foreign investors worth a total of HK\$13.22 billion, of which 2.97 billion have actually been invested. Advanced equipment imported thus far amounts to 25,000 pieces, which are now playing a pivotal role in developing the zone's productive forces. The SEZ has also been attracting interior enterprises; as of late March 1983, it has signed 497 contracts with 14 central ministries and commissions, 24 provinces (and autonomous regions) and 80 prefectures, municipalities and counties, with a total planned outlay of 649,570 yuan, HK\$126,950 and \$120,000. The amount actually invested is 168,940 yuan.

The attraction of foreign capital from abroad, coupled with economic cooperation with the interior, has accelerated Shenzhen's growth and resulted in a spectacular increase in revenue. In 1983, industrial output value was 10.7-fold higher than 1978, before the zone was established. In the same period, revenue jumped 10.9-fold. In the 5 years from 1979 to 1983, the municipality sank a total of 600 million yuan into construction of the zone. Because of its special low-tax policy, the Shenzhen SEZ's revenue structure is entirely different from that of the interior. Most of its income is related to external economic activities and developmental projects. In 1983, Shenzhen's total revenues amounted to 290 million yuan, of which 23 million, a mere 8 percent, came from the industrial sector. Customs duties yielded 110 million, or 37 percent, while commerce, catering services and tourism raked in another 90 million yuan, or 31 percent. Developmental businesses and operations accounted for 45 million yuan, or 15 percent. The same pattern can be seen when we analyze industrial and commercial taxes and profits turned over to the state by enterprises, which are the two major sources of revenues. The various industrial and commercial taxes generated a total of 130 million yuan in 1983, of which industrial and commercial taxes collected by customs accounted for 60 million yuan, or 47 percent, compared to the 20 million yuan, or 15 percent, which came from industry. Of the 140 million yuan turned over by all enterprises, 31 percent derived from enterprises related to foreign economic activities. While commerce and services also accounted for a considerable share of total profits turned over, industrial enterprises contributed much less, a mere 2.2 percent. This revenue structure results from the zone's special policies (including its low-tax policy). It is both unrealistic and plain wrong to expect fledgling modern industries in the zone to be major money-makers from the very beginning or to evaluate the zone's development and policy with reference to the revenue derived from industry.

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CSO: 4006/666

## SPECIAL ECONOMIC ZONES

### NOTION THAT SEZ'S ARE REVIVAL OF CONCESSIONS REFUTED

Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 5, 5 May 85 pp 26-27

[Article by Zheng Baoyin [6774 1405 6892]: "What Are the Distinctions Between Special Zones and Concessions?"]

[Text] Special zones include special political zones and special economic zones [SEZ's]; we are referring here to the latter. In China, SEZ's are new entities that have emerged in the last few years. For this reason it is inevitable that some people do not sufficiently understand them. Some people even harbor some incorrect viewpoints, one of which maintains that special zones are a "revival" of the concessions of old China. In view of this, it is imperative that we clarify the distinctions in principle between special zones and concessions.

China's SEZ's were built in 1979. In accordance with the decision of the Central Committee to implement special policies and flexible measures in Guangdong and Fujian provinces, we have further opened certain portions of Shenzhen, Zhuhai, Shantou and Xiamen to the outside world, adopted favorable terms and relaxed policies accordingly, making it convenient for the improved utilization of foreign capital and import of advanced technology. Interpreted literally, the concessions of old China were no more than definite "residential and trading" territories within the trading cities which the semi-colonialist country was forced to designate to the overseas residents of the imperialist countries. In reality, however, they were the knives which the imperialist countries plunged into the semi-colonialist country and were the vantage points for the former to carry out all kinds of aggressive activities. It was "concession" in name but occupation in reality. The imperialist concessions in China began in 1845 after the Opium War. At that time, the British aggressors made use of the terms in the "Treaty of the Bogue" permitting foreigners to lease land and build houses in the various trading ports, and compelled Gong Mujiu, a local official of the Qing government, to designate the area north of the Yangjingbin (the Yanan Road East today) on the bank of the Huangpu Jiang and south of Lijiafang (the Beijing Road East today) in Shanghai as leased residential territory for the British. Balfour, British consul in Shanghai, also compelled Gong Mujiu to announce the "Regulations for the Shanghai Concessions" (or "Regulations for Land in Shanghai"). In this way, England easily obtained in Shanghai a large

concession with a total of 830 mu of land. Then, the United States and France followed England's example and compelled the Qing government to designate concessions in Shanghai for them. After that, imperialist concessions spread to many cities throughout old China.

Simply viewing the special zones and the concessions, both are designated territories within cities. In these territories, foreigners reside, carry out trade and run industries. But this is a superficial view of the two, which are distinct from each other in principle. These principles generally include the following:

1. The special zones and the concessions enjoy different sovereign rights.

The sovereignty inside the special zones still belongs to our country. In the SEZ's, the utilization of foreign capital primarily takes the form of wholly-owned foreign ventures, joint ventures, cooperative ventures, or compensatory trade involving the processing of imported materials. Of these, joint ventures and wholly-owned foreign ventures must abide by the various policies, laws and decrees of our government, particularly the "Economic Contract Law," "Law Involving Joint Ventures," "Income Tax Law Involving Foreign Enterprises," and "Trademark Law." The relationship between labor and capital in these enterprises is handled through consultation by our local labor personnel departments and trade unions. All this indicates that China's sovereign rights will not be affected by the existence of the joint ventures and wholly-owned foreign ventures. Our government still exercises all kinds of sovereign rights in the special zones.

Conversely, the sovereign rights inside the concessions did not belong to China. Theoretically, the concessions were given to the foreign countries by China, who therefore should have enjoyed sovereign rights therein. This was not so in reality, however. In 1854, using the uprising of the Shanghai Small Sword Society as a pretext, the imperialist countries formulated their own administrative regulations. They set up the Ministry of Works and police stations. They also enjoyed legislative, administrative, judicial and financial powers inside the concessions. Since 1861, they began to collect house taxes and land taxes from the Chinese people inside the concessions. The imperialists controlled the important ruling power inside the concessions and set up a set of colonial administrative system. In reality, the concessions had become "states within a state." From that point on, China had lost all its sovereign rights inside the concessions.

2. The special zones and the concessions have basically different social characters.

The social character of the special zone is one of socialism. This is because, under the leadership of the CPC, the special zones take Marxism-Leninism-Mao Zedong Thought as the guiding ideology. The special zones are a component part of our socialist motherland. Inside the special zones, we must persevere in the four basic principles.

The social character of the concessions was one of imperialism. This is because, inside the concessions, one fully subscribed to the imperialist

policy of aggression. The concessions became a paradise for the imperialist aggressors to carry out all kinds of criminal activities. They used the concessions to smuggle goods and peddle narcotics. Making use of the concessions, they joined the Chinese reactionary powers to suppress revolutionary activities. Making use of the concessions, they actively trained their lackeys and compradors. Making use of the concessions, they wantonly interfered in China's internal affairs.

3. The special zones and the concessions have fundamentally different economic characters.

The economic character of the special zones is an integrated economic body in which state capitalism is the major component and in which diverse forms coexist. The economy of the special zones is an integrated body with the coexistence of diverse economic forms, primarily that of joint ventures and other forms such as cooperative ventures, wholly-owned foreign ventures and compensatory trade involving the processing of imported materials under the leadership of the socialist economy. The economic development of the special zones relies primarily on the absorption and utilization of foreign capital. Economic activities in the special zones rely primarily on market regulation under the state's planned guidance. The products of the SEZ enterprises are primarily for export.

The economic character of the concessions was purely capitalist. Prior to the "Treaty of Shimonoseki," most of the factories, docks and banks run by the foreign aggressors in China were concentrated in the concessions. Whether in the manner or the goal of business, these enterprises served the capitalist class heart and soul and were entirely capitalist in nature. Making use of the concessions, the imperialist countries also expanded their investments in China. Through the concessions, they controlled China's finance and banking, utilized China's labor and raw materials and directly exploited the Chinese working people.

4. The special zones and the concessions have entirely different goals.

The goal of establishing SEZ's in China is to encourage foreign investment and to utilize foreign capital; and to import advanced science and technology and management experiences in order to promote production development and a prosperous economy. The special zones are a means to realize our great strategic goal.

The goal of the imperialist countries in establishing concessions in the old China was to carry out aggression. They regarded the concessions as the bridgehead for military aggression, economic plunder and spiritual and cultural enslavement. The purpose of their making investment and running enterprises inside the concessions was to control China's economy and absolutely not to bring about economic prosperity in China. Inside the concessions, they established churches and schools and put out newspapers, the purpose of which was none other than to publicize the imperialist policy of aggression and to spiritually enslave the Chinese people. In short, the concessions became the bases for the imperialist expansion of aggression against China, and became the fortresses where the Chinese reactionary forces

colluded with their foreign counterparts. The concessions greatly facilitated imperialist aggression.

From the above analysis, we can see that there are distinctions in principle between the special zones and the concessions. Thus, the establishment of SEZ's in China is definitely not a "replay" of the concessions of old China. The SEZ's are new entities that have emerged in the course of China's economic construction. They constitute a brilliant decision of the party Central Committee and effective measures for promoting economic development. We must correctly understand and fervently support them, and bring their role into full play in order to build our country into a modernized and powerful socialist country at an early date.

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## LABOR AND WAGES

### WORKER'S HOME CAMPAIGN MAKES PROGRESS

Beijing GONGREN RIBAO in Chinese 5 Jun 85 p 3

[Article by Zhang Foyou [1728 1381 2589]: "Accelerate Construction of 'Workers' Homes' in Reforms"]

[Text] On May Day of last year, the All-China Federation of Trade Unions issued a "decision on strengthening grassroots trade unions and carrying out the campaign of building 'workers' homes'." In the past year or so, encouraged by the guidelines of the decision of the 3d Plenum of the 12th CPC Central Committee and with the concern and administrative support of party committees at all levels, trade unions at all levels and the broad masses of trade union cadres have carried out this campaign in the active and voluntary spirit of "striving for the best" and "not waiting for or depending upon anybody" and scored gratifying achievements. Trade unions at all levels have carefully guided the campaign of building "workers' homes." Most of them have drawn up a 3-year plan and established responsibility systems, enabling the campaign to spread rapidly throughout the country. A number of up-to-standard "workers' homes" and "workers' friends" who are loved by the masses have emerged in all localities. As of today, over 60,000 grassroots trade unions, 13 percent of the nation's total, have built up-to-standard "workers' homes." Progress has been fastest in Heilongjiang, Liaoning, Hebei and Jiangxi provinces.

I. Due to this campaign, gratifying changes have occurred in trade union work:

1. The position of trade unions has been raised in reforms and trade union cadres have a better understanding of the overall situation. Many grassroots trade unions have carried out the campaign of building workers' homes in the reform of the economic system, used the guarantee for home building to accelerate the reform of enterprises, raised the position of trade unions in reforms and won the warm support and applause from the party and government leaders and the masses of staff members and workers, thus bringing about a new situation in which the party, government and trade union work for the same goal and build the same "home."

2. New changes have occurred in the lineup of the leading bodies of grassroots trade unions and the quality of trade union cadres has improved markedly. Party and government leading organs at all levels have attached great importance to

the circulars of the Central Organization Department, the National Leading Group for Enterprise Consolidation, and the All-China Federation of Trade Unions, on strengthening the readjustment of the leading bodies of grassroots trade unions in enterprise consolidation. The party committees of Jiangsu, Shaanxi, Heilongjiang and Gansu provinces and Beijing and Tianjing municipalities have all released relevant documents which have played a great role in accelerating the building of the leading bodies of grassroots trade unions. According to the statistics of 138 grassroots trade unions in Nanjing City, only 12 percent of trade union chairmen had the power equivalent to that of the deputy position in party and government organs before the city party committee issued the document. Six months after the document was issued, the number of trade union chairman with such power increased to 60 percent. Among them, the number of chairman below the age of 45 years increased 11.9 percent and the number of chairman whose education level was higher than technical secondary school increased 14.1 percent. The enthusiasm of trade union cadres is running high throughout the country in competing to be "workers' friends."

3. Democratic management has been further enhanced and the worker's congress system has been continuously developed and perfected. Many grassroots trade unions have considered promoting democratic management, exercising the functions of workers' congresses and participating in major policy decisions of enterprises as focal points and breakthroughs in perfecting the enterprise leadership system and building workers' homes. In view of some confused ideas following upon the implementation of the factory director responsibility system, the trade union of the Nantong Acetic Acid Factory has organized all staff members and workers to study and unify ideology, revise the regulations of the workers' congress, clearly define the relationship between the factory director and the workers' congress and readjust the organizational structure of the workers' congress, thus enabling the workers' congress to genuinely participate in discussing and making decisions for major enterprise issues. With enterprises delegating management power to lower levels and implementing the economic contract responsibility system, workshops and work groups have also begun to establish and perfect their democratic management systems. According to a poll of 659 staff members and workers in 19 enterprises, 60.4 percent are satisfied with the way their workers' congresses exercise their functions, indicating that democratic management has made new progress.

4. Basic trade union work has been strengthened extensively and the relations between trade unions and the masses have never been closer. Carrying out the home-building campaign has made many comrades at the grassroots level realize that to build workers' homes they must lay a solid foundation, get closely involved with the masses and establish a normal order for trade union work. The trade union of the Qinchuan Machinery Plant began the home-building campaign by consolidating the trade union groups of workshops. It has delegated some of its powers to the trade union groups of workshops, trained trade union activists, aroused and brought into play the enthusiasm of the trade union groups of workshops and thereby changed the situation of the past in which "higher levels took action while lower levels remained still." "Now trade unions are really home," some masses have praised. In order to have more time to get closely involved with workshops and the masses and to strengthen ties with the masses,



many grassroots trade unions have applied modern scientific management methods to trade union work, established target control, information feedback and responsibility systems and gained many valuable experiences in the programming, scientific management and data compilation of trade union work. According to the 659 staff members and workers in 19 units, over 90 percent of staff members and workers think their trade unions have met or basically met the requirements for workers' homes, indicating that the relations between trade unions and the masses have improved substantially.

5. Reform of the leading organs of trade unions has been prompted. It has begun to become a regular practice for trade union cadres at all levels to walk out of their offices, go to grassroots units, get closely involved with the masses, serve the grassroots level and the masses, carry out investigations and studies and give different guidance according to different cases. In order to suit the new situation of structural economic reform, some provincial and municipal federations of trade unions have carried out reforms in the system and leadership methods of leading trade union organs. They have implemented the cadre tenure system, established the individual cadre responsibility system and the liaison system, and stipulated that cadres should use a third to a half of their time each year to carry out investigation and gain firsthand experiences in factories. These measures have been greatly welcomed by the broad masses of cadres at the grassroots level.

6. Enterprises have been invigorated and their economic results have been improved. The campaign of building "workers' homes" has focused on increasing the vitality of enterprises and arousing the enthusiasm of staff members and workers, and outstanding results have been achieved. Take the trade union of the Lanzhou High-Pressure Valve Plant for example. In spite of a shortage of raw materials, it helped the plant achieve an all-time high in its output value in 1984 by thoroughly mobilizing the masses. The plant leaders urged the plant to strive to double its profits this year. However, the trade union mobilized the plant from lower to high levels to advance suggestions and measures and at the workers' congress changed the goal from merely striving to double profits to guaranteeing that profits will double in 1985.

It has not been very long since the home-building campaign was carried out and yet trade union work has already changed so much. This is inseparable from the fact that party committees at all levels have attached great importance to this campaign. Many provincial, autonomous regional and municipal party committees have approved and transmitted to lower levels trade unions' plans and reports on building workers' homes and urged party committees at all levels to combine enterprise consolidation and the building of enterprises with "six merits" and carry them out simultaneously. This has greatly aroused the enthusiasm of the broad masses of trade union cadres.

II. In the past year or so, trade unions in all localities have explored and accumulated through practice fairly rich experiences in building workers' homes. They are as follows:

1. Bearing the overall situation in mind, improve understanding and straighten

out the relationship between reforms and the home-building campaign. Practice has proved that persisting in building homes in reforms and using the guarantee for home-building to accelerate reforms is to unify the overall situation and our own profession, to realize the general goal and task of the party in the new period and to find our own positions in the overall situation of reforms. Many cadres at the grassroots level have closely combined the home-building campaign with reforms on their own accord. In accordance with the six standards for building workers' homes, they have actively and voluntarily promoted democratic management, perfected the economic contract responsibility system and used communist spirit to strengthen the education of staff members and workers in politics, ideology, culture and professional skills and improve the "two qualities" of staff members and workers. On the basis of increasing labor productivity, they have safeguarded the legitimate rights and interests of staff members and workers and helped them solve problems and overcome difficulties.

2. Adhering to the home-building standards and emphasizing key points in building workers' homes. Due to the differences in the work foundations of different localities and in the scale and nature of enterprises, it is impossible for the home-building campaign to be unified. Most of the grassroots trade unions that have made good progress in construction have proceeded from the reality of their units, adhered to the six standards in checking their work and finding out where they lag behind, made up whatever they lack and strengthened whatever work is weak. As a result, their key points are prominent and their results outstanding. The Gansu Provincial Federation of Trade Unions has summed up these experiences in a timely manner and appropriately put forth the demand that the home-building campaign adhere to the six standards and emphasize key points. This not only has immediate significance for guiding the in-depth development of the home-building campaign and quickening its tempo, but also can help avoid formalism and going through the motions.

3. Relying on the masses of staff members and workers in building workers' homes, and concentrating on the word "home." Grassroots trade unions are the foundation for establishing close ties with the masses and carrying out all work. Many comrades of grassroots trade unions have learned much from the experience. They say: "Building a home is not getting a certificate from the trade union at the higher level. It is to get the recognition of the members." Because staff members and workers are the master of workers' homes, it is only natural to rely on them in doing a good job in building workers' homes. The trade union of the Nantong Radio Factory is an advanced workers' home named by the Nantong City Federation of Trade Unions. When it began to carry out the home-building campaign, a poll was conducted on the position and functions of trade unions. The results of the poll showed that 41.4 percent of staff members and workers thought that their trade union had a long way to go in becoming a workers' home, 41.4 percent were not satisfied with the leading body of the trade union and 47.5 percent thought the trade union was useless [all figures as published]. These findings shook the cadres of the factory trade union. They let the masses set the six standards for the home-building campaign, proposed measures for relying on the masses and consolidating the home-building campaign, and held a workers' congress to adopt a home-building plan. After 6 months of efforts, another poll was conducted before the examination and approval. The

findings showed that 82.4 percent of staff members and workers thought the factory trade union was qualified and basically qualified for a workers' home. The experience of the trade union of the Nantong Radio Factory indicates that relying on the masses in building workers' homes and carrying out the examination are the basic criteria for checking the success and failure of the campaign of building workers' homes and an effective way to prevent formalism, overelaborate procedures and going through the motions.

4. Strengthen leadership, do a thorough job and quicken the tempo of building workers' homes.

Various provincial and municipal federations of trade unions have achieved good results by considering the home-building campaign as their central task, putting chairmen or vice chairmen in charge of the campaign and strengthening the leadership over the campaign. At its enlarged plenum, the Gansu Provincial Federation of Trade Unions decided to establish the specific responsibility system in the home-building campaign and urged trade unions at provincial, prefectural and county levels and the trade unions of enterprises to put a chairman or vice chairman in charge of the home-building campaign and to ensure that organizational, planning and personnel work is carried out appropriately, that all plans remain unchanged for 3 years and that the work is carried out thoroughly and effectively. When directing the home-building campaign, efforts should be made to not only prevent one-sided pursuit of figures and lowering the standards to go through the motions but also avoid undue demands, overelaborate procedures and pursuit of formalities. In order to quicken the tempo of building workers' homes, the Liaoning, Shaanxi and Hebei provincial federations of trade unions, the Shanghai Municipal Federation of Trade Unions and some enterprise trade unions have already begun to pay attention to summing up the experiences gained by the grassroots trade unions of small enterprises, especially those cultural, education, public health, scientific research, financial and trade departments with less than 200 employees and no full-time trade union cadres, in carrying out the home-building campaign. This will serve to carry out the home-building campaign on a wider scale.

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TRANSPORTATION

GUANGDONG TO EXPAND HUANGPU HARBOR FACILITIES

HK090351 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in English 9 Jul 85 p 1

[By M.F. Lock]

[Text] Huangpu Harbor Bureau, will invest 680 million renminbi to build 10 more berths to improve container shipping facilities and to make Huangpu an international container port for the region, according to bureau chief Mr Chen Zhiqiang.

Mr Chen said the World Bank has already agreed to arrange a US \$100 million loan for the project. Construction is to commence next year and five of the berths would be ready by 1990 and the remaining ones by 1993.

Included in the project are two bridges for railway connection and two for linking up with highways.

Speaking at the opening of a local branch of the International Transport Enterprises to (Inteco), Mr Chen, who is also the chairman and director, said the project will also mean the introduction of advanced container handling technology to China and the modernization of the country's port facilities.

But the general manager of Inteco, Mr Hong Shaonan, said China's foreign exchange curb has some adverse effects on imports to China and there are signs that the volume of imports has recorded some decline.

However, contracts already signed will still be honored and every effort is being made to boost exports to earn more foreign exchange, he added.

Inteco is a joint venture comprising three Chinese partners and one Hong Kong partner, each with a 25 percent interest in the company.

The company has an investment capital of \$15 million, equally contributed by the four partners.

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## TRANSPORTATION

### HONG KONG PAPER ON ZHANJIANG PORT EFFORTS TO EXPAND USE

HK150310 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement)  
in English 15 Jul 85 p 5

[By Olivia Sin]

[Text] Facilities at the Zhanjiang port have been under-utilized because of a limited supply of cargo.

A Zhanjiang port official, Mr You Gojing, said he hoped the railway links between Zhanjiang city and inland provinces would be improved to bring more goods to the port.

Zhanjiang, a major deepwater port in southern China, handled about 12 million tons of goods last year.

The figure is far from the maximum annual capacity of the port, which is 17 million tons, said Mr You of the Bureau of Zhanjiang Harbour Administration of the Ministry of Communications.

Zhanjiang ranked seventh in terms of port handling capacity among 15 major ports in China, he said.

The top three are Shanghai, Dalian and Tianjin.

Lying to the west of Guangdong, Zhanjiang, is said to have the shortest sea route from China to Europe, Africa and Southeast Asia.

Zhanjiang is the major outlet of goods for the landlocked and resource-rich provinces in the southwest, including Guizhou, Yunnan, Hunan and Sichuan.

Zhanjiang port is connected with the southwest provinces through the Litong-Zhanjiang railway running through the central-south and southwest regions of China.

But the backward railway is now proving inadequate to cope with the tremendous growth in trade between the southwest provinces and foreign countries.

Mr You also expressed concern over the growing competition posed by the neighboring port of Fangcheng in Guangxi province.

"We already feel the threat now... and the pressure will become greater when the Fangcheng port is expanded," he said.

Both Zhanjiang and Fangcheng ports boast of their importance to the southwest provinces by providing a valuable shipping outlet. Competition will be keener when the transportation system of Fangcheng is improved next year.

A railway between Fangcheng and Nanning, the capital of Guangxi, is scheduled for completion next year.

It will improve Fangcheng's link with the southwestern region and enhance the development of Fangcheng port.

Zhanjiang has three terminals and 15 berths, of which nine can accommodate vessels of between 10,000 and 50,000 tons.

Fangcheng port, to the west of Beihai Gulf, has seven berths which can handle vessels of 10,000 tons and more.

The advantage of Zhanjiang is that it has a deeper navigation channel than Fangcheng, said Mr You.

Turning to the future development of Zhanjiang port, he said the Ministry of Communications will invest about 400 million renminbi (about HK\$1.08 billion) in the next few years to increase its cargo-handling capacity.

By 1990, Zhanjiang will have a total of 28 berths, of which 20 will be able to handle vessels of 10,000 tons and more.

Its annual cargo handling capacity will reach 20 million tons by then.

Mr You said work is proceeding to build a fourth terminal which will include a container wharf.

The first stage, which included the construction of six berths for 10,000-ton vessels, has been completed.

A 100,000 sq m godown has been built to cope with the cargo flood.

Bulk goods, including chemical fertilizer, steel, cement, sugar and cereal, will be handled through the new berths.

The berths will increase Zhanjiang port's handling capacity by 1.8 million tons a year.

Work has just started on the second stage which will see the construction of five berths for container vessels nearby, Mr You said.

It will increase the port's capacity by two million tons a year.

Mr You said the entire project will be completed before 1990 and was part of the designated key projects under China's seventh five-year plan (1986-1990).

Two of Zhanjiang's existing three terminals are mainly used to handle items such as cereal, minerals, coal, fertilizers and machinery.

Zhanjiang also has a specialized terminal for the transportation of petroleum.

Inside the oil terminal are scores of oil pipes connecting Zhanjiang and the city of Maomig, Guangdong, where an oil refinery is situated.

The oil terminal has four berths for 50,000-ton and 25,000-ton oil tankers as well as oil tanks storing more than 130,000 cu metres of oil.

CSO: 4020/294

## TRANSPORTATION

### XINJIANG PROJECTS INCLUDE RAILROAD TO CONNECT WITH SOVIET RAIL SYSTEM

HK180329 Beijing CHINA DAILY in English 18 Jul 85 p 1

[By Staff Reporter Chen Guangfeng]

[Text] Urumqi -- The remote region of Xinjiang, in Northwest China, is building a modern "Silk Road" to promote its foreign trade with Europe and the Middle East.

A 237-kilometer railway line is being constructed from Urumqi to Usu, and plans are under consideration to extend the railway to the Ala Mountain Pass, where it will meet with a Soviet railway.

Meanwhile, the China-Pakistan highway running from Kashi in southeast Xinjiang to Pakistan is being upgraded. When completed next year, it will be able to carry 30-ton trucks.

"Our drive to open to the outside world will be directed to the West," Niu Giyi, deputy secretary general of the regional government, told CHINA DAILY. "A big market for our light industrial products exists in the Soviet Union, and at least 15 million sheep are needed by Islamic countries in the Middle East every year," Niu said.

The railway running along the ancient "Silk Road" from Turpan to Kashi in south Xinjiang has just been completed, bringing the region's railway length to 1,470 kilometers. Its highways now run for 22,200 kilometers, and most of them are asphalted.

Xinjiang began to open to the outside world in 1981, when it launched its first joint venture, the Tianshan Spinning and Knitting Company with Japan and Hong Kong.

Xinjiang has already opened three cities to foreign barter trade, two along the Chinese-Soviet border and one on the Chinese-Pakistan border.

The city of Tacheng, in north Xinjiang, which is only a few kilometers away from the Soviet Union, will soon be re-opened for barter trade after being closed for more than 20 years.



He said foreign businessmen have great interest in Xinjiang's rich resources, especially its oil, coal, fruits, fur and leather. But worry over the high costs of transport had dampened enthusiasm to invest.

The region is also making other efforts to improve environment for foreign investors, according to Feng Dazhen, head of the regional Party committee's information department.

Construction of a post and telecommunications center, which will cost 20 to 30 million yuan, will start in Urumqi in October. Five new ground satellite stations will be built in the region to improve its radio and television services, bringing the number of ground satellite stations in the region to seven.

Nine hydro-electric power stations are now under construction, and preparations are being made for another 13, including the Tughai Hydro-electric Power Station on the Kashi River. Scheduled to be completed in 1988, the station will be the largest of its kind in the region.

The newly-established Xinjiang regional aviation company has ordered three T-514 planes from the Soviet Union, and at least four of the regions 12 civil airports are being expanded or upgraded.

To raise its industrial capacity, the region has launched nearly 190 projects in the past five years, each with an investment of more than one million yuan. Of these, 146 will start operation this year.

Up to now, the region has launched 18 projects in co-operation with foreign countries including joint oil exploration with Japan and France.

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## TRANSPORTATION

### BRIEFS

**TIANJIN HARBOR CONTAINER SHIPPING**--Tianjin Harbor has greatly developed international container transportation work and has increased its container handling capacity. In 1984 it handled 83,491 standard containers, and in the first 4 months of this year it handled 36,191, an increase of 47.7 percent over the same period last year. The container berth in use has an annual capacity of 100,000 standard containers. This is China's first modern container berth. At present construction of another three container berths is being stepped up. Upon completion of these three berths, Tianjin Harbor's annual container handling capacity will increase to 400,000 standard containers, and it will become the largest water-and-land coordinated container transportation center in north China. [Summary] [Tianjin TIANJIN RIBAO in Chinese 14 May 85 p 1 SK]

**YANJI CIVIL AVIATION FACILITY**--At 0900 sharp on 1 July, a silver grey An-24 airplane landed at Chaoyangchuan airport, which is surrounded by hills. This was the beginning of air service at the Yanji facility under the China Civil Aviation Bureau. Yanbian Korean Nationality Autonomous Prefecture held a celebration ceremony at the airport. Huo Mingguang, vice chairman of the provincial People's Congress Standing Committee, and Li Fengchang, deputy director of the Shenyang Civil Aviation Bureau, made a special trip by plane to Yanji from Shenyang to attend the ceremony. Attending the ceremony were leading party and government comrades of the prefecture; leaders of PLA units stationed locally; and more than 2,000 people of various nationalities. After the ceremony, more than 100 representatives from various circles, in three groups, flew in a plane high above Yanji City. [Text] [Changchun JILIN RIBAO in Chinese 2 Jul 85 p 1]

**GUANGDONG HIGHWAY CONSTRUCTION**--The provincial conference on highway capital construction disclosed that the province will invest more than 400 million yuan annually over the next 10 years to build highways and large bridges. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 17 Jul 85 HK]

**GUANGDONG RAILROAD BUREAU REGULATIONS**--The Guangdong Railroad Bureau has recently formulated 10 regulations to strictly curb the unhealthy trends of indiscriminately raising charges, carelessly loading and unloading goods and treating passengers rudely. These regulations include prohibiting all units and individuals from using pretexts to raise charges, making use of trains to

seek personal gain, extorting money or accepting bribes from passengers or owners of goods, violating the regulations governing loading and unloading work, indiscriminately throwing goods, or scolding, insulting, assaulting, or making things difficult for passengers. The individuals and leaders of units concerned who violate the above-mentioned regulations must be fined and their bonuses must be withheld. Regarding the economic losses caused by careless loading and unloading, the bonuses of those who are responsible for causing losses must be withheld and all damage must be paid for. Party and administrative disciplinary action must be taken against the offenders according to the seriousness of their cases. Legal sanctions must even be applied. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 19 Jul 85]

CIVIL AVIATION ADMINISTRATION POSTS GAINS--Beijing, July 18 (XINHUA)--The Civil Aviation Administration of China (CAAC), saw a big increase of 54.4 percent in its transport turnover, reaching 560 million tons/km in the first six months of this year. A CAAC official told Xinhua today that his airline carried 3.3 million passengers and shipped 88,000 tons of cargo and mail in the first half of this year, 46.7 percent and 39.1 percent, respectively, more than in the same period last year. There were notable increases in transport volumes on the air routes from China to Japan, the United States, and European countries. A big increase was registered in air services between China's interior cities and Hong Kong. The first half of this year saw the opening of five new domestic air routes -- to Lianyungang, Dandong, Dalian, Shijiazhuang and Qinhuangdao -- and one international air route to Singapore. The national flag-carrier opened an air service to Kuwait July 3. Despite gains in transport capacity, air services are still strained at present on some important routes -- to and from Beijing, Shanghai, Guangzhou, Guilin and Lhasa. According to the official, 15 new jetliners will go into service in the second half of this year. They include two Boeing 767s and two Airbus A310s. [Text] [Beijing XINHUA in English 1446 GMT 18 Jul 85 OW]

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## CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

### POLAND'S ECONOMIC REFORMS OF 1970'S DISCUSSED

Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 5, 5 May 85 pp 54-55, 64

[Article by Wei Zhen [3634 4176]: "Lessons from Poland's Economic Reforms of the 1970's"]

[Text] Following the strike in Poland in December 1970, Gierek was elected first secretary of the Polish United Worker's Party. He immediately abolished the decision on the increase in food price which had led to the strike. He summed up the economic experiences and lessons of his predecessor and put forth a new strategy for economic development, which was a policy demanding the simultaneous growth of investment and consumption, a high-speed development of the economy, and the so-called "three-highs" (high speed, high wage, and high welfare benefits) to improve the people's standard of living on a large scale. He maintained that only through large-scale investment could one rapidly change the national economic structure and modernize production capability. At the same time, in order to improve labor productivity and mobilize the enthusiasm of the broad masses of people, he maintained that it was necessary to strengthen material incentives while accelerating improvement in the level of consumption of the masses. Where would funds come from? The way out was to import foreign capital, in particular to obtain large sums of loans and to import advanced technological equipment from the West. In doing so, definite results were indeed scored in the first half of the 1970's. Poland's industrial economy at that time developed relatively rapidly, as did the people's livelihood. However, this "new economic strategy" was built on the basis of a large foreign debt. Many things were not done in accordance with the objective economic laws. Thus, the good times did not last long. Problems began to appear in the mid-1970's, when difficulties followed one after another. By the late 1970's, the country's economy hung on the verge of crisis. On 1 July 1980, the Polish government announced an increase in certain meat prices, which led to a nationwide strike that attracted worldwide attention. This was the first strike in a socialist country involving such length of time, such a large number of participants and such a broad scope. The 1980 massive strike in Poland triggered by the people's protest of this price increase was not an accident. The reasons were numerous. Economically, it directly reflected the mistakes in Poland's economic policy in the 1970's as well as a series of problems in its economic policies, which are treated separately in the following:

## I. An Important Reason for Poland's Economic Difficulties Is the Failure To Conduct Agriculture Properly.

The publicly-owned sector constitutes a very small proportion of Poland's agriculture. There are over 3 million individual peasant households, constituting over 70 percent of the cultivated acreage. Their output value constitutes over 77 percent of the gross value of agricultural output [GVAO]. In animal husbandry, the proportion represented by the individual economy is even higher. The development of the entire agriculture of Poland is to a very great extent determined by the production and operation of individual peasant households. However, the Polish government formerly showed insufficient concern for and imposed excessive restrictions upon individual peasant households. The supply of many materials essential for farm use to individual households could not be guaranteed. Due to a serious insufficiency of farm implements, chemical fertilizers and feed, to very poor farmland water conservancy construction, and to a very low degree of mechanization, large numbers of individual peasant households, to date, still rely on nature for food and on horses for farming. With respect to agricultural investment, although the state made huge investments in the public sector, great wastes also occurred. Its economic results were poorer than that of the individual households. With respect to agricultural structure, because crop-growing lagged behind the development of animal husbandry, grain and feed were both not self-sufficient. Prior to its liberation, grains and meat products in Poland were traditionally export materials and the important sources for the state in creating foreign exchange. In those days, Poland was known as "the grain storehouse of Europe." After its liberation, due to the improper proportion between industry and agriculture in economic construction, with a onesided emphasis on developing industry, especially heavy industry, the "grain storehouse of Europe" of the old days declined. By the 1970's, Gierek even put forth the principle of "importing feed and exporting meat" in an attempt to export more meat products to compensate the foreign exchange spent in importing feed and grain. But in the 1970's, the people's livelihood improved relatively rapidly and the domestic consumption of meat products increased on a large scale. The foreign exchange receipt and payment involving the export of meat products and import of feed were far from balanced. By the second half of the 1970's, because of consecutive poor agricultural harvests, self-sufficiency in grain and feed declined drastically. Imported grain was equivalent to half that of self-produced grain, while one out of two hogs was fed by imported feed. Roughly half of Poland's foreign debt was used as foreign exchange for the import of grain and feed.

In short, the several major strikes in Poland were directly related to the shortage of the supply of agricultural sideline products and the increase in prices of meat and food products. The failure to conduct agriculture properly has had serious consequences for the entire national economy and political situation.

## II. The Growth in Wages and Welfare Benefits Has Surpassed the Growth in Production, Resulting in Monetary Inflation, Price Hikes and Supply Shortages.

With the development of the national economy, how to make proper arrangements for the people's livelihood while maintaining a rational proportion between that and production growth are very important matters to consider. In the decade of the 1960's, the per-capita national income in Poland increased by 63.8 percent while the actual wages of the staff members and workers only increased 1.8 percent. After Gierek came to power in December 1970, he drew certain experiences and lessons from the economic policies of the 1960's and pushed forward the "three high" policy to increase as soon as possible the wages of the staff members and workers and to rapidly improve the actual income and social welfare benefits of the urban and rural people. However, he overcorrected the situation and failed to act in accordance with economic laws. As a result, the wages of the staff members and workers grew too rapidly. In the decade of the 1970's, the average nominal wage of the staff members and workers went from 2,235 Zlotys in 1970 to 5,000 Zlotys in 1979, a growth of more than 100 percent. The average actual wage increased by 6 percent every year, a total of 60 percent in 10 years. The annual rate of growth of wages was more than 2-fold that of the 1960's. Besides the wages of the staff members and workers, the peasant's income and social welfare benefits also increased by a wide margin. During this period of time, the compulsory delivery system by the peasants (low-price procurement of agricultural sideline products) was totally abolished. The procurement price was raised and free medical service for all peasants was implemented. However, in the 1970's, the growth in industrial production was 1.3 times while the growth in agricultural production was only 30 percent. The growth in food and meat products for the people was 40 to 50 percent. The growth in wages and welfare benefits far surpassed that of production. Production of the means of subsistence failed to catch up with the increase in the cash income of the people. As a result, the cash in the hands of the people increased dramatically and supply fell short of demand on the market. For instance, in 1979, 50 billion Zlotys of paper money not honored by commodities were issued in 1 year. Serious disharmony between supply and demand, monetary inflation and price hikes resulted.

## III. Large Sums of Blind Loans Have Resulted in the Inability To Repay Foreign Debts.

After Gierek took office, he advocated the active utilization of foreign capital and large sums of loans from the West to import patents, update Poland's technology and facilities and set up new industrial systems before using the new products to repay the debts and selling the products on the domestic market. However, due to excessive importing and blindness, for a variety of reasons, many facilities are left idle at home. According to reports, half of the factories built with loans have not been fully utilized, resulting in great waste. Excessive loans, foreign trade deficits, the large-scale import of grain and feed, the appearance of a bleak world market afterwards, the inability to sell to abroad the commodities which were produced through the use of imported patents, and price increases for petroleum raised Poland's foreign debt considerably.

Moreover, because of foreign trade deficits and the inability to repay debts, new debts were incurred to repay old debts. The burden became heavier and heavier. The result of this vicious circle and the drop in production by a wide margin due to the massive strike in the summer of 1980 forced the government again to borrow large sums abroad. According to statistics, in the 10 years between 1971 and 1980, Poland's debt to the West grew from \$1.2 billion to \$23 billion, nearly a 20-fold increase. This heavy foreign debt made it difficult for Poland's economic reform to advance.

#### IV. There Were Problems with Price Policy, State Subsidies Were Excessive and Far Exceeded the Financial Payment Capability.

Since the 1970's, Poland had improved the procurement prices for agricultural products on several occasions. However, the retail prices of the basic food products did not change from 1970 to the summer of 1980. As a result, the sales prices of many food products were much lower than the cost, resulting in an "upside down" phenomenon. For instance, in 1980, the state procured wheat from the peasants at 14 Zlotys per kg. The state-run grain stores, however, sold the flour at a retail price of 6.6 Zlotys. The state's procurement price for pork was 53 Zlotys per kg, but the sales price was only 35 Zlotys. The procurement price for 1 kg of milk was 4 Zlotys, and yet the sales price was only 2.9 Zlotys (roughly 1 jiao in RMB at the time). The retail price of 1 kg of butter was 70 Zlotys, while the cost was 120 Zlotys (not including labor).

At the same time, the people's demand for basic food products increased rapidly. In the mid-1970's, the people's wages and welfare benefits increased very rapidly. As a result, the consumption of fish, meat, eggs, milk and butter increased correspondingly. The larger the quantity of consumption, the larger the state subsidies and the heavier the financial burden. Thus the state's price subsidies took up a tremendous amount of financial expenditure. For instance, in 1978, the state subsidized 267 billion Zlotys (some \$7 billion at the time) in food prices alone. By 1980, this was increased to 500 billion Zlotys (\$16.7 billion at the time), 40 percent of the state's budgeted expenditure.

#### V. The Proportion Among the Various Industrial Sectors Has Been Inappropriate and a Comprehensive Balanced Development of the National Economic Has Been Neglected.

##### 1. Onesided emphasis on the development of heavy industry:

As early as the 1950's and 1960's, copying the experiences of other countries, Poland emphasized the development of heavy industry. In the 1970's, Gierek continued to focus the investment on the metallurgical and machine-building industries. Most of the capital construction projects were large-scale heavy industrial projects, constituting 42 percent of the gross amount of investment of the state.

##### 2. Excessively large scale of capital construction and excessively high rate of accumulation:

In the first half of the 1970's, the scale of capital construction was unprecedentedly large. New construction projects increased sharply. Key projects alone totaled 450. Most of them were large projects consuming large amounts of funds and involving long construction cycles. This method of scattered investment, excessively long front and failure to separate the primary from the secondary projects resulted in a passive state where forces were involved, many projects were unable to enter into production on schedule, and a large sum of funds was stockpiled. According to statistics from 1971 to 1973, an average of 5 to 6 billion Zlotys in economic losses was incurred for the abovementioned reasons. In order to cope with such large sums of capital construction investment, the rate of accumulation grew on an alarming scale. Prior to the 1970's, the average rate was between 20 to 27 percent. In the first half of the 1970's, it grew to over 30 percent. Poland had one of the highest accumulation rates of any country in the world.

### 3. Disharmony in development among the various industrial sectors:

In the 1970's, Poland emphasized development of the processing industry. Electrical power, communications and transport and light industry did not develop sufficiently. As a result, some sectors relied on import for most of the raw materials they needed, thus increasing the financial burden of the state. Due to the inadequate supply of raw materials, energy and electrical power, the facilities could not be fully utilized. One-fourth of the 300,000 machine beds throughout the country were lying idle for an extended period of time, and large numbers of staff members and workers were held up in work due to such reasons as power cutbacks. In the processing industry, manufacturing was emphasized and repair was slighted. The production capability of many facilities was not brought into full play because these facilities were not repaired or maintained in a timely manner. With respect to communications and transportation, the length of the Polish railways increased by only 1 percent in the entire 1970's, while the broken or cracked rails totaled 10,000 km. This not only delayed the production and transportation tasks but also affected the daily lives of the people.

### 4. Excessive emphasis on the development of large-scale industries and large-scale enterprises and neglect of the development of medium-sized and small enterprises:

In the early 1970's, Poland established a "large economic organization" and shattered the boundaries between sectors. It merged the factories, enterprises or companies of the same trades into large-scale economic organizations. Large-scale centralized production was an important achievement in the reform of the system of organization at the time. However, this was overdone and excessive merging took place to the neglect of the small enterprises, cooperative factories and other small-scale production activities. As a result, enterprise production failed to conform to the diverse needs of social development. Due to the neglect of the development of small-scale production and small-scale service trades, an unfavorable proportion between the key industries on the one hand and the small-scale production and small-scale service trades on the other hand in Poland's industry appeared. For instance, in 1975, the number of individuals employed by enterprises with fewer than 100 workers constituted only 0.7 percent of the



number of employed individuals in the entire Polish industrial workforce. Yet, at that time, it was 7.1 percent in the German Democratic Republic and 19.7 percent in the Federal Republic of Germany.

#### VI. Poor Business Results Caused by Onesided Emphasis on the Role of Material Incentives.

Gierek maintained that powerful material incentives could improve the labor enthusiasm of the workers, which would in turn bring about a high-speed development of labor productivity and the entire industry. Thus, in the trial-implementation of the new system between 1972 and 1975, he abolished the quotas for the wage funds and profit withholding of the economic organizations, and used the newly-increased net output value to assess the wage funds. That is to say, the higher the newly-increased net output value, the larger the wage funds at the disposal of the staff members and workers. However, the new system overemphasized the role of material incentives. As a result, the enterprise simply pursued profit and the staff members and workers pursued quantity at the expense of product quality and the economy over the use of energy and raw materials. This led to poor business results.

#### VII. In Implementing Economic Reforms and Formulating Economic Policy Decisions, the Opinions of Concerned Parties, Especially Experts, Were Not Heeded.

For instance, in the beginning, (Ka-lai-ci-ji) (famous Polish economist) and others once offered ideas and propositions for Gierek regarding the economic policies and the reform programs. He maintained that, based on Poland's economic organizations, management capability and labor force, it would be very difficult to utilize large sums of loans to import facilities and technology and to repay debts with the products produced. Practice has proved that the opinions of the experts were correct. However, at the time, their opinions were suppressed.

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PUBLICATIONS

BRIEFS

FUJIAN PERIODICAL--The first issue of XIAMEN (HAIFENG BAO) was published on 9 June. Printed in Hong Kong, it is jointly run by journalists and culture workers in Xiamen. It offers the latest information about the construction of the home towns of overseas Chinese compatriots, Hong Kong, and Macao compatriots, Taiwan compatriots and foreigners of Chinese extraction. It also wishes to promote the mutual ties between the mainland and Taiwan. [Summary] [Beijing in Mandarin to Taiwan 1500 GMT 11 May 85]

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